

State of Florida



# Public Service Commission

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**DATE:** June 12, 2012  
**TO:** Office of Commission Clerk  
**FROM:** Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 120037-WS  
Company Name: Utilities, Inc. of Pennbrooke  
Company Code: WS861  
Audit Purpose: Alf Rate Case (PAA)  
Audit Control No: 12-100-2-1

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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 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

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FPSC-COMMISSION CLERK

State of Florida



**Public Service Commission**

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

**Auditor's Report**

Utilities, Inc. of Pennbrooke  
Rate Case Audit

**12 Months Ended September 30, 2011**

Docket No. 120037-WS  
Audit Control No. 12-100-2-1  
**June 11, 2012**

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

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Simon O. Ojada  
Audit Manager

A handwritten signature in black ink, appearing to read "Linda Hill-Slaughter".

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Linda Hill-Slaughter  
Reviewer

## Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
Audit Findings	
1: Land .....	6
2: Taxes Other than Income .....	7
Exhibits	
1: Rate Base - Water .....	8
2: Rate Base - Wastewater .....	9
3: Net Operating Income - Water.....	10
4: Net Operating Income - Wastewater.....	11
5: Capital Structure .....	12

## 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 April 6, 2012. We have applied these procedures to the attached schedules prepared by Utilities, Inc. of Pennbrooke in support of its filing for rate relief in Docket No. 120037-WS.

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. The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definition

Utility refers to Utilities, Inc. of Pennbrooke.

#### Utility Information

Utilities, Inc. of Pennbrooke is a Class B Utility providing water and wastewater service to approximately 1,326 water customers and 1,232 wastewater customers in Lake County.

#### Regulatory Proceeding

The Utility completed Minimum Filing Requirements (MFRs) for this proceeding in Docket No. 120037-WU, for the 12-months ended September 30, 2011. The last order setting rates and charges for the Utility was issued June 18, 2010, by the Florida Public Service Commission (FPSC), in Docket No. 090392-WS. The test year ended December 31, 2008, was utilized for that proceeding.

### **Rate Base**

#### Utility Plant in Service

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

**Procedures:** We determined the UPIS balances as of December 31, 2008 that were established in Docket No. 090392-WS. We reviewed and sampled additions to plant for the period January 1, 2009, through September 30, 2011, to verify the UPIS balances for this proceeding. 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 a retirement was needed. No exceptions were noted.

#### Land & Land Rights

**Objectives:** Our objectives were to: 1) Determine that utility land is recorded at original cost and is owned or secured under a long-term lease, and 2) Obtain warranty deeds or other evidence of ownership of land purchased after December 31, 2008.

**Procedures:** We obtained land balances as of December 31, 2008, that were established in Docket No. 090392-WS. We reconciled the Utility's land balances for this proceeding to the balances established in Docket No. 090392-WS. No additions or deletions to the land account were noted. Our recommended adjustments to land are discussed in Finding 1.

### Contributions-in-Aid-of-Construction

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

**Procedures:** We determined the CIAC balances as of December 31, 2008, that were established in Docket No. 090392-WS. We reviewed and sampled additions to plant CIAC for the period January 1, 2009, through September 30, 2011, to verify the Utility's CIAC balances for this rate case proceeding. No exceptions were noted.

### Accumulated Depreciation

**Objectives:** Our objectives were to: 1) Verify that the adjustments to Accumulated Depreciation ordered by the FPSC in the Utility's last rate case proceeding were recorded in its 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 Accumulated Depreciation balances as of December 31, 2008, that were established in Docket No. 090392-WS. We reviewed and sampled additions to Accumulated Depreciation for the period January 1, 2009, through September 30, 2011, to verify the Utility's Accumulated Depreciation balances for this proceeding. We ensured that retirements to Accumulated Depreciation were made when a capital item was removed or replaced. No exceptions were noted.

### Accumulated Amortization of CIAC

**Objectives:** Our objectives were to: 1) Determine that 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 ordered by the FPSC in the Utility's last rate case proceeding were recorded in its general ledger.

**Procedures:** We determined the Accumulated Amortization of CIAC balances, as of December 31, 2008, that were established in Docket No. 090392-WS. We reviewed and sampled additions to Accumulated Amortization of CIAC for the period January 1, 2009, through September 30, 2011, to verify the Utility's Accumulated Amortization of CIAC balances for this proceeding. No exceptions were noted.

### Working Capital

**Objective:** Our objective was to calculate the Utility's working capital balance per Commission rule.

**Procedures:** We calculated the Utility's working capital adjustment as of September 30, 2011, using one-eighth of Operation and Maintenance (O&M) Expense as required by Commission Rule 30.433(2), Florida Administrative Code (F.A.C.). No exceptions were noted.

## Net Operating Income

### Operating Revenue

**Objectives:** Our objectives were to: 1) Determine that utility revenues are properly recorded in compliance with Commission rules, and 2) Verify that rates are based on the Utility's Commission approved tariff rates.

**Procedures:** We verified the Utility's revenues for the 12-month period ending September 30, 2011, by tracing them from the Utility's MFRs to the general ledger and the billing register system. We verified that the Utility is using the Commission authorized tariff rates by calculating a sample of customer bills in the test period. No exceptions were noted.

### Operation and Maintenance Expense

**Objectives:** Our objectives were to: 1) Determine that O&M Expense is properly recorded in compliance with NARUC USOA and Commission rules, and 2) Verify that O&M Expense is representative of ongoing utility operations.

**Procedures:** We verified plant O&M Expense for the 12-month period ending September 30, 2011, by tracing a sample of invoices to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and recurring nature. No exceptions were noted.

### Depreciation and CIAC Amortization Expense

**Objectives:** Our objectives were to: 1) Determine that Depreciation and CIAC Amortization expenses are properly recorded in compliance with Commission rules, and 2) Verify that the depreciation of UPIS assets and the amortization of CIAC from ongoing utility operations are accurately represented.

**Procedures:** We verified the calculation of Depreciation and CIAC Amortization expense for the 12-month period ending September 30, 2011, by recalculating a sample of expenses using the rates established by Commission Rule 30.140, F.A.C. No exceptions were noted.

### Taxes Other than Income

**Objectives:** Our objectives were to: 1) Determine that Taxes Other Than Income (TOTI) expenses are properly recorded in compliance with Commission rules, and 2) Verify the reasonableness of ongoing utility operations.

**Procedures:** We verified water plant TOTI expenses for the 12-month period ending September 30, 2011, by tracing the taxes to original source documentation. We reviewed the 2010 regulatory assessment fee returns. Our recommended adjustments to TOTI are discussed in Finding 2.

## **Capital Structure**

**Objectives:** Our objectives were to review 1) The components of the Utility's capital structure, and 2) Cost rates used to arrive at the overall weighted cost of capital.

**Procedures:** The Utility used its consolidated capital structure for the common equity and long term debt components of the capital structure. The Utility used the Utilities, Inc. of Pennbrooke subsidiary to determine the customer deposits and accumulated deferred income tax components of the capital structure.

We traced the Accumulated Deferred Income Tax and Customer Deposits to the Utility's General Ledger. No exceptions were noted. We did not examine consolidated capital structure to determine the common equity and long term debt components of the capital structure.

## Audit Findings

### **Finding 1: Land**

**Audit Analysis:** The Utility reclassified Wastewater Land of \$57,035 that was established in Docket No. 090392-WS, from General Plant to Reclaimed Water Treatment Plant during the test period, and calculated a simple average cost of land to be \$28,518 each for General Plant and Reclaimed Water Treatment Plant. However, the Utility erroneously used \$28,518 in its rate base calculation and not the average total amount of \$57,036.

**Effect on the General Ledger:** None.

**Effect on the Filing:** Wastewater Land should be increased by \$28,517 to correct the error in the Utility's rate base calculation.

## **Finding 2: Taxes Other than Income**

**Audit Analysis:** The Utility's MFRs reflected Real Estate and Personal Property Taxes of \$21,970 and \$18,325 for Water and Wastewater, respectively. The amount used by the Utility in its filings represented accrued Property Taxes of \$40,295. However, the Utility provided total Property Tax bills of \$32,534 which represented how much was actually paid. The Utility took full advantage of the early payment discount offered by the county. The Utility also provided a schedule which included an allocated amount of \$975 from its head office for a total of \$33,509. We allocated the difference between the accrued amount and the actual tax bill of \$6,786 to Water and Wastewater systems.

**Effect on the General Ledger:** None.

**Effect on the Filing:** Reduced TOTI by \$3,732 and \$3,054 for Water and Wastewater, respectively.

## Exhibits

### Exhibit 1: Rate Base - Water

Schedule of Water Rate Base

Florida Public Service Commission

Company: Utilities, Inc. of Pennbrooke  
 Docket No.: 120037-WS  
 Schedule Year Ended: September 30, 2011  
 Interim [ ] Final [X]  
 Historic [X] Projected [ ]

Schedule: A-1  
 Page 1 of 1  
 Preparer: F. Seidman

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/8 O&M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No.	(1) Description	(2) Simple Average Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$ 2,319,543	376,616	A \$ 2,696,159	A-3, A-5
2	Utility Land & Land Rights	22,054	9	A 22,062	A-3, A-5
3	Less: Non-Used & Useful Plant			B -	A-3, A-7
4	Construction Work in Progress	1,482	(1,482)	C -	A-3, A-18
5	Less: Accumulated Depreciation	(1,184,730)	75,098	D (1,109,632)	A-3, A-9
6	Less: CIAC	(353,117)	(543,946)	E (897,063)	A-3, A-12
7	Accumulated Amortization of CIAC	248,942	141,471	F 390,413	A-3, A-14
8	Acquisition Adjustments	476,560	(476,560)	G -	A-3, A-18
9	Accum. Amort. of Acq. Adjustments			-	A-18
10	Advances For Construction			-	A-16
11	Working Capital Allowance	<u>37,655</u>	<u>(705)</u>	H <u>36,950</u>	A-3, A-17
12	<b>Total Rate Base</b>	<u>\$ 1,568,389</u>	<u>\$ (429,499)</u>	<u>\$ 1,138,890</u>	

## Exhibit 2: Rate Base - Wastewater

### Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Utilities, Inc. of Pennbrooke  
 Docket No.: 120037-WS  
 Schedule Year Ended: September 30, 2011  
 Interim [ ] Final [X]  
 Historic [X] Projected [ ]

Schedule: A-2  
 Page 1 of 1  
 Preparer: F. Seidman

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/8 O&M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No.	(1) Description	(2) Simple Average Per Books	(3) A-3 Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant in Service	\$ 3,000,682	\$ (13,337)	\$ 2,987,344	A-3, A-6
2	Utility Land & Land Rights	28,518	7	28,525	A-3, A-6
3	Less: Non-Used & Useful Plant		-	-	A-3, A-7
4	Construction Work in Progress	-	-	-	A-3, A-18
5	Less: Accumulated Depreciation	(1,249,707)	6,767	(1,242,941)	A-3, A-10
6	Less: CIAC	(1,733,772)	517,012	(1,216,760)	A-12
7	Accumulated Amortization of CIAC	840,579	(271,079)	569,500	A-3, A-14
8	Acquisition Adjustments			-	A-3, A-18
9	Accum. Amort. of Acq. Adjustments			-	A-18
10	Advances For Construction			-	A-16
11	Working Capital Allowance	<u>35,792</u>	<u>(1,178)</u>	<u>34,614</u>	A-3, A-17
12	Total Rate Base	<u>\$ 922,091</u>	<u>\$ 238,192</u>	<u>\$ 1,160,283</u>	

### Exhibit 3: Net Operating Income - Water

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Utilities, Inc. of Pennbrooke  
 Docket No.: 120037-WS  
 Test Year Ended: September 30, 2011  
 Interim [ ] Final [X]  
 Historic [X] or Projected [ ]

Schedule: B-1  
 Page 1 of 1  
 Preparer: F. Seidman

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$ 425,271	\$ 66,306 (A)	\$ 491,577	\$ 162,305 (F)	\$ 653,882	B-4, B-3, E-2
2	Operation & Maintenance	301,241	(5,637) (B)	295,604	78,000 (G)	373,603	B-5, B-3
3	Depreciation, net of CIAC Amort.	255,918	(161,663) (C)	94,255	-	94,255	B-13, B-3
4	Amortization						
5	Taxes Other Than Income	52,527	1,485 (D)	54,012	7,304 (H)	61,316	B-15, B-3
6	Provision for Income Taxes	21,055	(21,055) (E)	-	33,369 (I)	33,369	C-1, B-3
7	OPERATING EXPENSES	630,741	(186,871)	443,870	118,672	562,543	
8	NET OPERATING INCOME	\$ (205,471)	\$ 253,177	\$ 47,706	\$ 43,633	\$ 91,339	
9	RATE BASE	\$ 1,568,389		\$ 1,138,890		\$ 1,138,890	
10	RATE OF RETURN	--	%	4.19	%	8.02	%

# Exhibit 4: Net Operating Income - Wastewater

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Utilities, Inc. of Pennbrooke  
 Docket No.: 120037-WS  
 Test Year Ended: September 30, 2011  
 Interim [ ] Final [X]  
 Historic [X] or Projected [ ]

Schedule: B-2  
 Page 1 of 1  
 Preparer: F. Seidman

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$488,552	\$ (75) (A)	\$ 488,478	\$ 116,169 (F)	\$ 604,646	B-4, B-3, E-2
2	Operation & Maintenance	286,338	(9,423) (B)	276,915	65,093 (G)	342,007	B-6, B-3
3	Depreciation, net of CIAC Amort.	(184,717)	266,490 (C)	81,772	-	81,772	B-14, B-3
4	Amortization			-	-	-	B-3
5	Taxes Other Than Income	43,814	4,774 (D)	48,588	5,228 (H)	53,815	B-15, B-3
6	Provision for Income Taxes	17,563	(17,563) (E)	-	33,996 (I)	33,996	C-1, B-3
7	OPERATING EXPENSES	162,997	244,278	407,275	104,316	511,591	
8	NET OPERATING INCOME	\$325,555	\$ (244,353)	\$ 81,203	\$ 11,852	\$ 93,055	
9	RATE BASE	\$922,091		\$ 1,160,283		\$ 1,160,283	
10	RATE OF RETURN	35.31 %		7.00 %		8.02 %	

## Exhibit 5: Capital Structure

Schedule of Requested Cost of Capital  
Simple Average

Florida Public Service Commission

Company: Utilities, Inc. of Pennbrooke  
Docket No.: 120037-WS  
Test Year Ended: September 30, 2011  
Schedule Year Ended: September 30, 2011  
Historic [X] or Projected [ ]

Schedule: D-1 (Final)  
Page 1 of 1  
Preparer: F. Seidman  
Utility [ ] Parent [X]

Explanation: Provide a schedule which calculates the requested Cost of Capital on a beginning and end of year average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

Line No.		(1) Total Capital Reconciled To Requested Rate Base	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	1,087,780	47.31 %	6.65 %	3.15 %
2	Short-Term Debt		%	%	%
3	Preferred Stock	-			
4	Customer Deposits	6,515	0.28 %	6.00 %	0.02 %
5	Common Equity	1,076,227	46.81 %	10.37 %	4.85 %
6	Tax Credits - Zero Cost	-			
7	Accumulated Deferred Income Tax	128,651	5.60 %	0.00 %	%
8	Other (Explain)	-			
9	Total	<u>2,299,173</u>	<u>100.00 %</u>		<u>8.02 %</u>

Note: The cost of equity is based on the leverage formula in effect pursuant to Order No. PSC-11-0287-PAA-WS.  
Equity Ratio (from D 49.73 %