

State of Florida



Public Service Commission

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

Auditor's Report

Holmes Utilities, Inc./Country Walk Utilities, Inc.
Application for Transfer of Certificate
Certificate No. 579-W

As of September 4, 2013

Docket No. 130294-WU
Audit Control No. 14-069-2-1
May 28, 2014

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Simon O. Ojada
Audit Staff

A blue ink signature of Linda M. Hill, written in a cursive style, positioned above a horizontal line.

Linda M. Hill
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 Accounting and Finance in its audit service request dated March 14, 2014. We have applied these procedures to the attached schedules prepared by the audit staff in support of Homes Utilities, Inc./Country Walk Utilities, Inc.'s request for a Transfer of Certificate in Docket No. 130294-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. The report is intended only for internal Commission use.

Objectives and Procedures

Background

Definitions

Buyer/Utility refers to Country Walk Utilities, Inc. (Country Walk).

Seller refers to Holmes Utilities, Inc. (Holmes).

Utility Information

Holmes Utilities Inc. was a Class "C" Utility that provided water services to approximately 68 customers in Highlands County. Holmes and Country Walk executed an asset purchase agreement for Holmes water system in Highlands County, Florida, on September 9, 2013, for \$5,500. The sale was consummated on October 17, 2013. The Buyer filed an application for the transfer of Certificate No. 579-W on December 27, 2013. Rate base for the Utility was last established in Docket No. 010403-WU, Order No. PSC-01-2385-PAA-WU, issued December 10, 2001, and consummated with Order No. PSC-02-0061-CO-WU, issued January 8, 2002.

General

Utility Books and Records

Objective: The objective was to determine whether the Utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA).

Procedures: We reviewed the general ledger account numbers and descriptions. We verified that the Utility uses the accrual method of accounting and maintain records on a calendar year basis. No exceptions were noted.

Net Book Value

Utility Plant in Service

Objectives: The objectives were to determine whether Utility Plant in Service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, 3) Retirements are made when a replacement asset was put in service, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balances for water UPIS as of December 31, 2000, established in Docket No. 010403-WU, with the Seller's books and records. We scheduled water UPIS activity from December 31, 2000, through September 4, 2013. We sampled approximately 85 percent of plant additions. We traced selected asset additions to supporting documentation. We ensured that retirements were made when a capital item was removed or replaced. We determined the UPIS transfer balances as of September 4, 2013. Our recommended adjustments are discussed in Finding 3.

Land & Land Rights

Objectives: The objectives were to determine whether utility land is: 1) Recorded at original cost, 2) Owned or secured under a long-term lease agreement, and that 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We reconciled the beginning land balance as of December 31, 2000, established in Docket No. 010403-WU, with the Seller's books and records. We searched the Highlands County Clerk of the Courts' official records to verify the transfer of utility land from the Seller to the Buyer. We determined the land transfer balance for the water system as of September 4, 2013. No exceptions were noted.

Accumulated Depreciation

Objectives: The objectives were to determine whether Accumulated Depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, Florida Administrative Code (F.A.C.), 2) Retirements are recorded when an asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for Accumulated Depreciation as of December 31, 2000, established in Docket No. 010403-WU, with the Seller's books and records. We recalculated depreciation accruals for all UPIS accounts to verify that the correct depreciation rates were used. We determined the Accumulated Depreciation transfer balance for the water system as of September 4, 2013. Our recommended adjustments to Accumulated Depreciation are discussed in Findings 1 and 3.

Contributions in Aid of Construction

Objectives: The objectives were to determine whether Contributions in Aid of Construction (CIAC): 1) Consist of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission approved tariffs, 3) Retirements are recorded when a contributed asset was replaced, and 4) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balance for CIAC as of December 31, 2000, established in Docket No. 010403-WU, with the Seller's books and records. We scanned the Seller's records and inquired about cash and property contributions since the last rate proceeding. We traced additions to CIAC to the approved tariff. We determined the CIAC transfer balance as of September 4, 2013. No exceptions were noted.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether Accumulated Amortization of CIAC: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, and 3) Adjustments required in the Utility’s last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for Accumulated Amortization of CIAC as of December 31, 2000, established in Docket No. 010403-WU, with the Seller’s books and records. We recalculated amortization accruals for all CIAC accounts to verify that correct amortization rates were used. We determined the Accumulated Amortization of CIAC transfer balance as of September 4, 2013. Our recommended adjustments to Accumulated Amortization of CIAC are discussed in Finding 2.

Acquisition Adjustment

Objectives: The objectives were to determine whether an acquisition adjustment is warranted in this docket and to calculate the adjustment pursuant to Rule 25-30.0371 – Acquisition Adjustments, F.A.C.

Procedures: We determined that the Net Book Value for this utility at time of transfer is \$31,955. The purchase price is \$5,500. Pursuant to Rule 25-30.0371 – Acquisition Adjustments, F.A.C., a negative acquisition adjustment should be recognized for rate-making purposes. Audit staff calculates the negative acquisition adjustment to be \$20,064.

Other

Rates and Charges

Objective: The objective was to determine whether the Utility is charging monthly service rates authorized by Commission tariffs.

Procedures: We obtained the Utility’s November 2013 billing register. We recalculated a sample of customers’ bills using the approved tariffs. No exceptions were noted.

Customer Deposits

Objectives: The objectives were to determine whether the Seller had collected customer deposits and whether the balances were transferred to the Buyer.

Procedures: We reviewed the ledger and inquired about the deposit policy. The Utility does not collect customer deposits. No exceptions were noted.

Audit Findings

Finding 1: Accumulated Depreciation

Audit Analysis: Holmes' general ledger reflects \$49,258 of Accumulated Depreciation as of December 31, 2012. We reviewed the Utility's records and determined that depreciation was not recorded for the period January 1, 2013, through September 4, 2013.

Acct. No.	Account Description	Plant Bal.	Acc. Dep.	Dep. Rates	Dep. Expense	Acc. Dep. 9/4/2013
		Per Utility 12/31/2012	Per Utility 12/31/2012			
304	Structure and Improvements	\$ 11,980	\$ 7,689	3.57%	\$ 290	\$ 7,979
307	Wells and Springs	\$ 38,413	\$ 14,578	3.70%	\$ 963	\$ 15,541
311	Pumping Equipment	\$ 5,253	\$ 2,452	5.88%	\$ 209	\$ 2,661
320	Water Treatment Plant	\$ 8,377	\$ 8,377	5.88%	\$ -	\$ 8,377
330	Distr. Reservoirs and Standpipes	\$ 6,701	\$ 4,636	3.03%	\$ 137	\$ 4,773
331	Transmission and Dist. Mains	\$ 11,863	\$ 4,266	2.63%	\$ 211	\$ 4,477
334	Meters & Meters Installations	\$ 8,242	\$ 7,260	5.88%	\$ 328	\$ 7,588
		<u>\$ 90,829</u>	<u>\$ 49,258</u>		<u>\$ 2,138</u>	<u>\$ 51,396</u>

Effect on the General Ledger: None.

Effect on Staff's Exhibit: Increase the Accumulated Depreciation by \$2,138.

Finding 2: Accumulated Amortization of CIAC

Audit Analysis: Holmes’ general ledger reflects \$14,278 of Accumulated Amortization of CIAC as of December 31, 2012. We reviewed the Utility’s records and determined that amortization was not recorded for the period January 1, 2013, through September 4, 2013.

Acct. No.	Account Description	CIAC Bal. Per Utility 12/31/2012	Acc. Amortz. 12/31/2012	Amortz. Rates	Amortz. Expense	Acc. Amortz. 9/4/2013
271	Dist Reservoirs & Standpipes	\$ 6,701	\$ 3,722	3.03%	\$ 137	\$ 3,859
271	T&D Mains	\$ 2,896	\$ 1,406	2.63%	\$ 52	\$ 1,458
271	Cash (Composite Rate)	\$ 14,103	\$ 9,150	2.72%	\$ 260	\$ 9,410
		<u>\$ 23,700</u>	<u>\$ 14,278</u>		<u>\$ 449</u>	<u>\$ 14,727</u>

Effect on the General Ledger: None.

Effect on Staff’s Exhibit: Increase Accumulated Amortization of CIAC by \$449.

Finding 3: Plant Retirements

Audit Analysis: In 2002, the Utility incurred capital costs of \$180 for the replacement of meters – Acct. 334. Also, in 2006, the Utility replaced a pump –Acct. 311 and a Chlorine pump –Acct. 320, in the amounts of \$689 and \$1,158 respectively. Plant records do not exist to document the original costs of these plant assets.

In previous dockets before the Commission, utilities have been permitted to retire 75% of the capital assets' purchase price when original cost cannot be determined.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Amount</u>	<u>Rate</u>	<u>Retirement Amount</u>
311	Power Generation Equipment	\$ 689	75%	517
320	Water Treatment Plant	\$ 1,158	75%	868
334	Meters and Meter Installation	\$ 180	75%	135
		<u>\$ 2,027</u>		<u>1520</u>

Effect on the General Ledger: Decrease Total UPIS by \$1,520 and decrease Total Accumulated Depreciation by \$1,520.

Effect on Staff's Exhibit: Decrease Total UPIS by \$1,520 and decrease Total Accumulated Depreciation by \$1,520.

Exhibit

Exhibit 1: Net Book Value

Holmes Utilities, Inc./Country Walk Utilities, Inc.
Docket No. 130294-WU
Net Book Value
As of September 4, 2013

<u>Description</u>	<u>Per Utility 12/31/2012*</u>	<u>Audit Adjustment</u>	<u>Refer To Finding</u>	<u>Balance Per Audit 9/4/2013</u>
Utility Plant In Service	\$ 90,829	\$ (1,520)	(3)	\$89,309
Land and Land Rights	1,495	-		1,495
Contributions in Aid of Construction (CIAC	(23,700)	-		(23,700)
Accumulated Amortization of CIAC	14,278	449	(2)	14,727
Accumulated Depreciation	(49,258)	(618)	(1&3)	(49,876)
Net Book Value	<u>\$ 33,644</u>	<u>\$ (1,689)</u>		<u>\$31,955</u>

All amounts are rounded to the nearest whole dollar.

* The Utility calculates depreciation and amortization at year end.