

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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DATE: August 12, 2011
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CJP*
RE: Docket No.: 110098-WU
Company Name: Par Utilities, Inc.
Company Code: WU837
Audit Purpose: Certificate Transfer
Audit Control No: 11-153-1-1

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/kby

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

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

Auditor's Report

Par Utilities, Inc.
Certificate Transfer Audit

Period ended December 31, 2010

Docket No. 110098-WU
Audit Control No. 11-153-1-1
August 11, 2011

Handwritten signature of Andrew Von Euw in cursive script.

Andrew Von Euw
Audit Manager

Handwritten signature of Lynn M. Deamer in cursive script.

Lynn M. Deamer
Reviewer

DOCUMENT NUMBER - DATE

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Purpose

To: Florida Public Service Commission

We have performed the procedures described in this report to meet the agreed-upon objectives set forth by the Division of Economic Regulation in its audit service request dated June 2, 2011. We have applied these procedures to prepare the accompanying schedule of Rate Base for Par Utilities, Inc. as of December 31, 2010.

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

Definitions

The audit period is from June 30, 1998 to December 31, 2010.

The Utility refers to Inglewood Water System, a water utility being transferred from Par Utilities, Inc. to Hash Utilities, LLC.

Utility Books and Records

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

Procedures: We examined the 2010 general ledger of Par Utilities and determined that it is in conformity with NARUC USOA.

Rate Base

Utility Plant in Service

Objectives: The objectives are to 1) determine Utility Plant in Service (UPIS) for the audit period, 2) determine that additions are authentic, recorded at original cost, and properly classified in compliance with Commission Rules and the NARUC USOA, and 3) verify that the proper retirements were made when a replacement item was put into service.

Procedures: We scheduled UPIS for the audit period using the Utility's books and records. We traced additions and retirements to source documentation. We reconciled beginning balances of UPIS to the last Commission Order¹, and made the Commission ordered adjustments. We tested UPIS additions for the following criteria: date acquired, original cost, account recorded, and appropriate retirements. We tested the retirements for the following criteria: cost retired, account number, and date of retirement. Audit Finding 1 discusses our findings.

¹ See Order No. PSC-00-0682-FOF-WU, issued April 12, 2000, Docket No. 990253-WU, In Re: Application for approval of sale of Inglewood Water System in Levy County and transfer of Certificate No. 428-W to Lonnie and Royanna Parnell.

Land & Land Rights

Objectives: The objectives are to 1) determine that utility land exists, is used for utility operations, and is owned by the Utility or the Utility has a long-term written agreement for the use of the land, and 2) determine that the utility land is recorded at original cost when the land was first dedicated to public service.

Procedures: We scheduled utility land using the Utility's books and records. We reconciled the beginning balance to the last Commission Order², and made the Commission ordered adjustments. We determined that Par Utilities, Inc. was the legal owner of the land during the test period. We noted that there were no land additions or retirements during the test period. Audit Finding 2 discusses our findings.

Contributions-in-Aid-of-Construction

Objectives: The objectives are to determine if Contributions-in-Aid-of-Construction (CIAC) are properly stated and are reflective of service availability charges authorized in the Utility's approved Commission tariff.

Procedures: We scheduled CIAC using the Utility's books and records. We reconciled beginning balances to the last Commission Order³. We traced all CIAC additions to the corresponding plant additions and verified that the Utility was using approved service availability charges from the authorized tariff. Audit Finding 3 discusses our findings.

Accumulated Depreciation

Objective: The objective is to determine that the Utility's accumulated depreciation balances are properly stated and that annual accruals are reflective of depreciation rates authorized in the Utility's last Commission certificate transfer proceeding.

Procedures: We calculated accumulated depreciation for the audit period using depreciation rates from Rule 25-30.140, Florida Administrative Code (F.A.C.). We reconciled beginning balances to the last Commission Order⁴, and made the Commission ordered adjustments. Our schedules included: beginning and ending balances by UPIS sub-account, methodology for calculating annual accumulated depreciation accruals, and yearly depreciation expense. Finally, we traced the audited ending accumulated depreciation balances to the Utility's general ledger. Audit Finding 1 discusses our findings.

² See Order No. PSC-00-0682-FOF-WU, issued April 12, 2000, Docket No. 990253-WU, In Re: Application for approval of sale of Inglewood Water System in Levy County and transfer of Certificate No. 428-W to Lonnie and Royanna Parnell.

³ *Ibid.*

⁴ *Ibid.*

Accumulated Amortization of CIAC

Objectives: The objectives are to determine that the Utility's accumulated amortization balances are properly stated and that annual accruals are reflective of amortization rates authorized in the Utility's last Commission certificate transfer proceeding.

Procedures: We scheduled accumulated amortization for the audit period, using Commission approved rates. We reconciled the beginning balance to the last Commission Order⁵. Our schedule includes: beginning and ending balances, methodology for calculating annual accumulated amortization accruals, and yearly amortization expense. Audit Finding 3 discusses our findings.

Revenue

Objectives: The objectives are to determine that utility revenues are properly stated by identifying rates for utility services, miscellaneous service charges and other charges imposed by the Utility, and to determine that the Utility's charges are approved by the Commission in its authorized tariff.

Procedures: We reviewed current Commission approved tariff rates for Inglewood's monthly water services, customer deposits, miscellaneous service charges, and service availability charges. We obtained the electronic billing register of the Inglewood Water System since Hash Utilities, LLC took over operations from Par Utilities, Inc. We reviewed the billing register of the Inglewood Water System from March to May 2011, since Hash Utilities resumed operations, checking for any miscellaneous service charges, customer deposits, or service availability charges. Finally, we reviewed Commission approved tariffs to verify that Hash Utilities, Inc., is charging the appropriate rates for the Inglewood Water System.

Other

Objectives: The objectives are to verify the extent to which the buyer's (Hash Utilities, LLC) billing and record-keeping software will be able to keep the Inglewood water system's expenses and revenues separate from its other water and wastewater systems in Citrus County.

Procedures: We obtained a description of Hash Utilities' record-keeping system, which has the ability to separate costs by system or company. Therefore, we believe that Hash Utilities, LLC will be able to keep the Inglewood Water System's expenses and revenues separate from its other water and wastewater systems in Citrus County.

⁵ See Order No. PSC-00-0682-FOF-WU, issued April 12, 2000, Docket No. 990253-WU, In Re: Application for approval of sale of Inglewood Water System in Levy County and transfer of Certificate No. 428-W to Lonnie and Royanna Parnell.

Audit Findings

Finding 1: UPIS and Accumulated Depreciation

Audit Analysis: The last Commission Order⁶ established the beginning balances for UPIS as of June 30, 1998. Audit staff determined that Commission ordered adjustments to UPIS and accumulated depreciation had not been made. To make the correct adjustments, UPIS should be decreased by \$2,568, and accumulated depreciation should be decreased by \$9,855. Audit staff used the depreciation rates as per Commission Rule 25-30.140, F.A.C. to determine audited balances. To adjust for the difference in rates, accumulated depreciation should be reduced by \$2,465. This results in a total adjustment to accumulated depreciation of \$12,320 (\$9,855 + \$2,465). Table 1 and Table 2 show Utility and audited account balances for UPIS and accumulated depreciation, respectively.

Table 2 shows negative audited accumulated depreciation balances for four individual plant accounts as of December 31, 2010: Account 309 - Supply Mains, Account 334 - Meters and Meter Installations, Account 340 - Office Furniture and Equipment, and Account 343 - Tools, Shop and Garage Equipment. As per the last Commission Order⁷, accounts 309, 334, and 343 had low beginning balances in accumulated depreciation. Account 340 had a negative beginning balance. The beginning accumulated depreciation balances for these accounts were too low to sustain positive balances while being debited with retirements and costs of removal during the audit period.

Effect on the General Ledger: Based on the audited schedules for UPIS and accumulated depreciation, the following general ledger entries are required to correct the Utility's balance as of December 31, 2010.

NARUC

Acct. No.	Account Description	Debit	Credit
108	Accumulated Depreciation	\$ 12,320	
320	Water Treatment Equipment	\$ 1,326	
333	Services	\$ 62	
340	Office Furniture and Equipment	\$ 193	
343	Tools, Shop and Garage Equipment	\$ 81	
215	Retained Earnings		\$ 9,733
304	Structures and Improvements		\$ 603
309	Supply Mains		\$ 225
311	Pumping Equipment		\$ 1,292
331	Transmission and Distribution Mains		\$ 1,466
334	Meters and Meter Installations		\$ 663

⁶ See Order No. PSC-00-0682-FOF-WU, issued April 12, 2000, Docket No. 990253-WU, In Re: Application for approval of sale of Inglewood Water System in Levy County and transfer of Certificate No. 428-W to Lonnie and Royanna Parnell.

⁷ *Ibid.*

Table 1

**Inglewood Water System
Plant in Service**

Account Description	Acct. No.	Balance as per General Ledger 12/31/2010	Audit Adjustments	Balance as per Audit 12/31/2010
Structures and Improvements	304	\$ 11,019	\$ (603)	\$ 10,416
Wells and Springs	307	2,111	-	2,111
Supply Mains	309	1,729	(225)	1,504
Power Generation Equipment	310	722	-	722
Pumping Equipment	311	6,346	(1,292)	5,054
Water Treatment Equipment	320	9,721	1,326	11,047
Distribution Reservoirs and Standpipes	330	2,437	-	2,437
Transmission and Distribution Mains	331	15,174	(1,466)	13,708
Services	333	3,614	62	3,676
Meters and Meter Installations	334	10,084	(663)	9,421
Office Furniture and Equipment	340	350	193	543
Tools, Shop and Garage Equipment	343	525	81	606
Total		\$ 63,832	\$ (2,587)	\$ 61,245

Table 2

**Inglewood Water System
Accumulated Depreciation**

Account Description	Acct. No.	Balance as per General Ledger 12/31/2010	Audit Adjustments	Balance as per Audit 12/31/2010
Structures and Improvements	304	\$ 10,638	\$ (1,237)	\$ 9,401
Wells and Springs	307	2,111	\$ (0)	\$ 2,111
Supply Mains	309	681	\$ (1,251)	\$ (570)
Power Generation Equipment	310	231	\$ 2	\$ 233
Pumping Equipment	311	6,509	\$ (5,018)	\$ 1,491
Water Treatment Equipment	320	9,725	\$ 61	\$ 9,786
Distribution Reservoirs and Standpipes	330	846	\$ (21)	\$ 825
Transmission and Distribution Mains	331	12,865	\$ 828	\$ 13,693
Services	333	2,282	\$ 447	\$ 2,729
Meters and Meter Installations	334	2,363	\$ (4,507)	\$ (2,144)
Office Furniture and Equipment	340	350	\$ (970)	\$ (620)
Tools, Shop and Garage Equipment	343	525	\$ (653)	\$ (128)
Total		\$ 49,126	\$ (12,320)	\$ 36,806

Finding 2: Land and Land Rights

Audit Analysis: The last Commission Order⁸ established land value at \$3,307 as of June 30, 1998. As of December 31, 2010, the Utility had land reflected on the books at \$4,307. Audit staff determined that there have been no additions or sales of land during the audit period. Therefore, the Utility land balance should be decreased by \$1,000.

Effect on the General Ledger: Based on the audited schedule for Land and Land Rights, the following general ledger entries are required to correct the Utility's balance as of December 31, 2010.

NARUC

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings	\$ 1,000	
303	Land and Land Rights		\$1,000

⁸ See Order No. PSC-00-0682-FOF-WU, issued April 12, 2000, Docket No. 990253-WU, In Re: Application for approval of sale of Inglewood Water System in Levy County and transfer of Certificate No. 428-W to Lonnie and Royanna Parnell.

Finding 3: Contributions-in-Aid-of-Construction and Accumulated Amortization of CIAC

Audit Analysis: The utility made the Commission ordered adjustments to CIAC and Accumulated Amortization of CIAC in 2000. CIAC became completely amortized in 2002, at which point the Utility removed the entire balance of CIAC and Accumulated Amortization of CIAC from its books. Therefore, CIAC and Accumulated Amortization of CIAC both need to be increased by \$14,464. In 2003 and 2005, the Utility collected CIAC from 3 new customer tie-ins for a total of \$570 (\$190 x 3).

Audit staff recalculated Accumulated Amortization of CIAC using a 4.2% amortization rate based on the last Commission Order⁹ for the years 1998 to 2002, and a composite rate based on depreciation expense as per Rule 25-30.140, F.A.C., for the years 2003 to 2010. The adjustment related to the difference in rates requires Accumulated Amortization of CIAC to be increased by \$138. Therefore, the total adjustment to Accumulated Amortization is an increase of \$14,556 (\$14,464 + \$138).

Effect on the General Ledger: Based on the audited schedules for CIAC, the following general ledger entries are required to correct the Utility’s balance as of December 31, 2010.

NARUC

Acct. No.	Description	Debit	Credit
272	Accumulated Amortization	\$14,556	
271	CIAC		\$14,464
215	Retained Earnings		\$ 92

⁹ See Order No. PSC-00-0682-FOF-WU, issued April 12, 2000, Docket No. 990253-WU, In Re: Application for approval of sale of Inglewood Water System in Levy County and transfer of Certificate No. 428-W to Lonnie and Royanna Parnell.

Exhibits

Exhibit 1: Rate Base

Description	Balance per Utility 12/31/2010	Audit Adjustments	Balance per Audit 12/31/2010
Utility Plant in Service	\$ 63,831	\$ (2,586)	\$ 61,245
Land	4,307	(1,000)	3,307
Accumulated Depreciation	(49,126)	12,320	(36,806)
Contributions in Aid of Construction	(570)	(14,464)	(15,034)
Accumulated Amortization of CIAC	46	14,556	14,602
RATE BASE	\$ 18,488	\$ 8,826	\$ 27,314