

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 2, 2005
TO: Shannon Hudson, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief, Bureau of Auditing *o*
Division of Regulatory Compliance and Consumer Assistance
RE: **Docket No.:** 041145-WU; **Company Name:** Holiday Utility Company, Inc.;
Audit Purpose: Staff Assisted Rate Case; **Audit Control No.:** 04-313-2-1

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 the Commission Clerk and Administrative Services. There are no confidential workpapers associated with this audit.

DNV/jcp
Attachment

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

Gary Deremer, President
Holiday Utility Company, Inc.
P. O. Box 398
New Port Richey, FL 34656-0398

Ms. Elaine J. Mickler, Secretary/Treasurer
Holiday Utility Company, Inc.
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New Port Richey, FL 34656-0398

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New Port Richey, FL 34652

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

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

TAMPA DISTRICT OFFICE

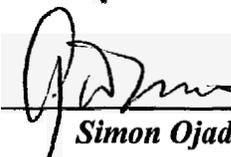
HOLIDAY UTILITY COMPANY, INC.

STAFF ASSISTED RATE CASE

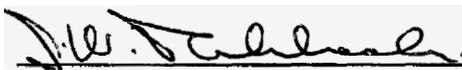
HISTORICAL YEAR ENDED JUNE 30, 2004

DOCKET NO. 041145-WU

AUDIT CONTROL NO. 04-313-2-1



Simon Ojada, Audit Manager



Joseph W. Rohrbacher, Regulatory Analyst Supervisor

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

DECEMBER 10, 2004

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure for the historical 12-month period ended June 30, 2004, for Holiday Utility Company, Inc. These schedules were prepared by the auditor as part of the utility's petition for a Staff Assisted Rate Case in Docket No. 041145-WU. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

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 FINDINGS:

The utility collects a \$40.00 deposit from its customers and does not pay interest on the deposits. Rate base was adjusted to reconcile with prior Commission Orders, and increased for capital items that were expensed per books.

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.

Reviewed - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

RATE BASE: Schedule account balances for Utility-Plant-in-Service (UPIS), Contributions-in-Aid-of-Construction (CIAC), accumulated depreciation, and accumulated amortization of CIAC from July 1, 2003 to June 30, 2004. Reconciled rate base balances to prior PSC audit. Reviewed for CIAC additions. Calculated working capital using one-eighth of operation and maintenance expenses. Calculated accumulated depreciation. Computed amortization of CIAC using the depreciation composite rates.

NET OPERATING INCOME: Compiled utility revenue and operation and maintenance accounts for the 12 month period ended June 30, 2004. Chose a judgmental sample of customer bills and recalculated using FPSC approved rates. Reviewed operation and maintenance expenses and examined invoices or other supporting documentation. Recalculated depreciation expense. Verified taxes other than income.

CAPITAL STRUCTURE: Compiled components of the capital structures for the period ended June 30, 2004.

Disclosure No. 1

Subject: Plant-in-Service

Statement of Fact: Plant in Service balance was last determined by FPSC audit as of June 30, 2003. A review of new plant additions for the audit period revealed that some of the plant additions were already included in the previous audit and were treated as audit adjustments in the general ledger and on the utility Annual Report. Also, the utility recorded two of the plant addition items twice in its books and records.

Recommendation: The utility should be required to make the following entries to correct the items contained in the previous audit and for the items that were recorded twice:

504 Retained Earnings	(\$4,629)	
331 Supply Mains		(\$4,629)
630.2 Contractual Services - Professional	(\$2,058)	
311 Pumping Equipment		(\$2,058)

Disclosure No. 2

Subject: Customer Deposits

Statement of Fact: The utility collects a \$40.00 deposit from its customers and does not pay interest on the customer deposits.

Florida Administrative Code No. 25-30.311(4) states, “(a) Each utility which requires deposits to be made by its customers shall pay a minimum interest on such deposits of 6 percent per annum . . . (b) The deposit interest shall be simple interest in all cases and settlement shall be made annually, either in cash or by credit on the current bill. This does not prohibit any public utility paying a higher rate of interest than required by this rule.”

The utility provided a list of customer deposits. However, the total amount on the list does not agree with the utility trial balance as June 30, 2004. The customer list shows a balance of \$6,193 while the general ledger shows a balance of \$1,181. When asked why there is disparity between the general ledger and the customer list, the utility representative responded saying that they will correct the general ledger to agree with the customer deposit list.

Recommendation: The utility should be required to pay 6 percent annual interest on customer deposits and, to correct its general ledger to agree with total customer deposits.

Disclosure No. 3

Subject: Accumulated Depreciation/Expense

Statement of Fact: Rule 25-30.140 FAC establishes the useful life of depreciable assets for Class C utilities effective March 22, 1984. Subsection 4 (b) states “All class C utilities shall maintain depreciation rates and reserve activity data by total depreciable plant, function or account as prescribed by this commission.”

Depreciation expense and accumulation of depreciation were computed by the auditor from the last audit. The auditor used rates as prescribed by Rule 25-30.140 FAC for class C utilities for the test period. Except for some plant assets, the utility used the prescribed rates in the depreciation of its plants assets.

In December 2003, the utility retired its Transportation Equipment valued at \$12,065, however, the utility did not reduce Accumulated Depreciation by the full amount. Also, the utility replaced various plant items totaling \$9,156 without any corresponding retirements.

Recommendation: Below is the auditor’s computed depreciation expense for the test year and the accumulated depreciation as of June 30, 2004.

	July to Dec. '03	Jan to June '04	Dec. '03	June '04
	<u>Dep Exp</u>	<u>Dep Exp</u>	<u>Acc Dep</u>	<u>Acc Dep</u>
Balance Per Utility	0	0	236,557	236,557
Balance Per Audit	<u>5,649</u>	<u>5,403</u>	<u>230,141</u>	<u>228,676</u>
Difference	<u>5,649</u>	<u>5,403</u>	<u>6,416</u>	<u>7,881</u>

The balance of the accumulated depreciation in the utility books reflects the audited balance of accumulated depreciation as of June 30, 2003. The utility did not record any depreciation expense nor accumulated depreciation for the 12 month period ending June 30, 2004. The auditor reduced the balance of accumulated depreciation by \$12,065 to reflect the retirement of the Transportation Equipment and by \$6,867, being 75 percent of \$9,156, for the retirements of other replaced plant items.

Accept auditor’s computed amounts for rate making purposes.

Disclosure No. 4

Subject: Contribution in Aid of Construction (CIAC)

Statement of Fact: The prior FPSC audit established CIAC and Accumulated Amortization of CIAC as of 6-30-03 to be \$32,052 and \$19,041 respectively. The utility did not adjust its books to reflect the balance of Accumulated amortization of CIAC by the difference of \$279 as discussed in the transfer audit report.

In April 2004, the utility recorded \$200 for the cost of a new line connection as non-utility revenue. This should be recorded as CIAC.

Recommendation: The auditor started with the balance of CIAC and accumulated amortization of CIAC per prior PSC audit, and applied the composite depreciation rates of 2.26 percent for 2003 and 2.04 percent for 2004.

	<u>CIAC</u>	<u>ACCUM</u>	<u>TEST YR AMORTZ</u>
Balance per utility	32,052	18,762	0
Balance per audit	<u>32,252</u>	<u>19,863</u>	<u>822</u>
Difference	200	1,101	822

The utility should adjust its books to reflect auditor's amounts for CIAC and amortization of CIAC as shown above for the test period ending June 30, 2004.

Disclosure No. 5

Subject: Revenues

Statement of Fact: The utility recorded total revenues of \$64,634 in its general ledger for the 12 month period ended June 30, 2004. During the audit, the auditor discovered that the utility overstated its August residential revenues by \$5,032. The utility recorded \$8,837 as residential revenues for the month of August in its General Ledger, but the actual revenues per billing register calculation was \$3,305.

Recommendation: Auditors reduced total revenues by \$5,032 to reflect the actual revenues for August 2003 bringing it to a total balance of \$59,603.

Disclosure No. 6

Subject: Operation and Maintenance Expense

Statement of Fact: The utility recorded a total of \$113,204 for water O&M expense for the 12 months period ended June 30, 2004.

Recommendation: Out of the \$5,930 recorded as Materials and Supply, \$5,154 were capital items made up of (\$1,692) Meters and Meters Installation, (\$3,462) Transmission and Distribution, and (\$776) Repairs and maintenance that should have been classified as Contractual Services. The items totaling \$776 were moved to Contractual Services.

The utility erroneously reduced Contractual Services by (\$2,058) with its December 2003 journal entry. Therefore, the auditor increased Contractual Services by \$2,058.

Also, the utility included expenses of \$15,682 related to Transfer application. This cost should be amortized over five years. Therefore, we removed (\$12,546) and included \$3,136, one fifth of \$15,682 for rate making purposes.

The utility included \$2,250 of transfer application fees, \$751 of prior period RAF, and \$124 licensing fees as Miscellaneous expense. Auditors removed the prior period RAF of \$751, moved the licensing fees of \$124 to Taxes Other Than Income, and removed the unamortized portion of the transfer application fees of \$2,250 for rate making purposes.

Below are the adjustments made to Operation and Maintenance Expense:

Transmission and Dist. Mains	(\$3,462)	
Meters and Meter installations	<u>(1,692)</u>	
Total items to be capitalized		(\$ 5,154)
Journal Entry Error		2,058
Ownership transfer Application (\$15,682)		(12,546)
Ownership Transfer Application (\$2,250)	(\$1,800)	
Prior period RAF	(751)	
Licensing Fees	<u>(124)</u>	
Total Adjustment to Misc Exp.		<u>(\$ 2,675)</u>
Total adjustments to O&M Exp.		<u>(\$18,317)</u>

The utility should increase Transmission and Distribution by \$3,461 and increased Meters and Meters Installation by \$1,692.

Disclosure No. 7

Subject: Taxes Other Than Income

Statement of Fact: The utility recorded \$3,508 as Regulatory Assessment Fees for the 12 month period ending June 30, 2004. \$953 were late filing fees and penalties while \$2,555 applies to Regulatory Assessment Fees for the 12 months period ended December 31, 2003.

Also, the utility included prior period Payroll taxes and penalties totaling \$1,501 as Taxes Other Than Income.

Recommendation: The total audited revenue for the test period was \$59,603. Therefore, the auditor increased the Regulatory assessment fee by \$127 to a total of \$2,662 to reflect the RAF for the test period (Total Revenue of \$59,603 X .045).

We also increased Taxes Other Than Income by \$124 to reflect Licensing fees recorded as Miscellaneous expense (disclosure no. 5) and reduced the balance by \$1,501 for prior period payroll taxes and penalties.

Below are the adjustments made to Taxes Other Than Income:

Licenses	\$ 124.00
Regulatory Assessment Fees penalties	(953.00)
RAF adjustment for revenues	127.00
Payroll Taxes adjustment	<u>(1,501.00)</u>
Total Adjustments	<u>(\$2,203.00)</u>

Accept auditor's calculation of Taxes Other Than Income for rate making purposes.

Disclosure No. 8

Subject: Capital Structure/Related Party Transactions.

Statement of Fact: Holiday Utility Company, Inc. has a negative retained earnings balance. The loan of \$31,318 is from the owner of the utility. There is no interest on the loan, no loan documents, and the utility is not making payments on the principal.

Also, the utility has a Rent Payable balance of \$46,480 in its books. The utility has not made any payments on the Rent Payable for over a year.

All utility expense invoices are from U. S. Water Services Corporation, a related party.

Recommendation: Since the loan is never paid on and it is from a related party the auditor treated it as equity capital. The Rent Payable is for information purposes.

SCHEDULES FOR STAFF ASSISTED RATE BASE
HOLIDAY UTILITY COMPANY, INC.
DOCKET NO. 041145-WU
RATE BASE - WATER
TEST YEAR ENDED 06/30/04

EXHIBIT I

(a) DESCRIPTION	(b) PER BOOKS 6/30/2003	(c) PER BOOKS 6/30/2004	(d) AUDIT DISCL	(e) REFER TO DISCL	(f) PER AUDIT 6/30/2004	(g) AVERAGE BAL PER AUDIT
UTILITY PLANT IN SERVICE	250,234	271,225	(8,400)	D1 & D6	262,825	256,530
LAND	0	0	0		0	0
PLANT HELD FOR FUTURE USE	0	0	0		0	0
CIAC	(32,052)	(32,052)	(200)	D4	(32,252)	(32,152)
AMORTIZATION OF CIAC	18,762	18,762	1,101	D4	19,863	19,312
ACCUMULATED DEPRECIATION	(236,557)	(236,557)	7,881	D3	(228,676)	(232,616)
WORKING CAPITAL	0	0	11,861		11,861	12,834
TOTAL	387	21,378	12,243		33,621	17,004

1. Working Capital Formula: 1/8 Operating and Maintenance Expense.

2. All amounts rounded to the nearest whole dollar.

STAFF ASSISTED RATE CASE
HOLIDAY UTILITY COMPANY, INC.
DOCKET NO. 041145 - WU
SCHEDULE: NET OPERATING INCOME-WATER
12 MONTHS ENDED JUNE 30, 2004

EXHIBIT II

NET OPERATING INCOME - WATER	(1) TEST YEAR PER BOOKS (ACTUAL)	(2) AUDIT ADJUST		(3) AUDITED BALANCE
DESCRIPTION	<u> </u>	<u> </u>		<u> </u>
OPERATING REVENUES	64,634	(5,032)	D5	59,603
OPERATING EXPENSES				
OPERATION AND MAINTENANCE EXPENSE	113,204	(18,317)	D6	94,887
DEPRECIATION EXPENSE	0	11,051	D3	11,051
AMORTIZATION EXPENSE	0	822		822
TAXES OTHER THAN INCOME	5,444	(2,203)	D7	3,241
INCOME TAXES	0	0		0
TOTAL OPERATING EXPENSES	118,648	(8,647)		110,001
NET OPERATING INCOME/LOSS	(54,014)	3,616		(50,398)

STAFF ASSISTED RATE CASE
HOLIDAY UTILITY COMPANY, INC.
DOCKET NO. 041145 - WU
CAPITAL STRUCTURE
12 MONTHS ENDED JUNE 30, 2004

EXHIBIT III

DESCRIPTION	(a) BALANCE PER T/B @ 06/30/03	(b) BALANCE PER T/B @ 06/30/04	(c) SIMPLE AVERAGE PER T/B	(d) AUDIT ADJUST- MENTS	(e) BALANCE PER AUDIT @ 06/30/04	(f) SIMPLE AVERAGE PER AUDIT	(g) RATIO	(h) COST RATE	(i) WEIGHTED COST OF CAPITAL
COMMON EQUITY (A)	(29,874)	(60,028)	(44,951)	0	(28,710)	(29,292)	0.00%	9.10%	0.00%
COMMON STOCK	955	1,054	1,005		1,054	1,005			
RETAINED EARN.	(130,803)	(161,056)	(145,930)		(161,056)	(145,930)			
PD IN CAPITAL	99,974	99,974	99,974	31,318	131,292	115,633			
L/T DEBT- Officer	0	0	0		0	0	9.10%	0.00%	0.00%
RENT PAYABLE	0	0	0	0	0	0	0.00%	8.00%	0.00%
ACCOUNTS PAYABLE	0	0	0		0	0	0.00%	8.00%	0.00%
CUSTOMER DEPOSITS	324	6,193	3,259		6,193	3,259	-12.52%	6.00%	-0.75%
OTHER	0	0	0		0	0	0.00%	0.00%	0.00%
TOTAL	(29,550)	(53,835)	(41,693)	0	(22,517)	(26,034)	-3.42%		-0.75%

Required Footnotes:

(1) Audit adjustments do not include audit disclosures.

(2) Equity cost based on FPSC Order No. 04-0587-PAA-WS issued 6/10/04.