

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: November 3, 2011
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 110019-WS
Company Name: Harbor Hills Utilities, L.P.
Company Code: WU727
Audit Purpose: Certificate Transfer
Audit Control No: 11-153-1-3

RECEIVED-FPSC
11 NOV -3 PM 3:58
COMMISSION
CLERK

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

08130 NOV-3 =

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

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

Auditor's Report

Harbor Hills Utilities, L.P.
Certificate Transfer Audit

12 Months Ended December 31, 2010

Docket No. 110019-WS
Audit Control No. 11-153-1-3

November 2, 2011

Handwritten signature of Donna D. Brown in cursive script.

Donna D. Brown
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 June 2, 2011. We have applied these procedures to prepare the accompanying schedules of Rate Base and Net Operating Income for Harbor Hills Utilities, L.P. for a Certificate Transfer in Docket No. 110019-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

Definitions

The audit period is for the twelve months ended December 31, 2010.

Although this current docket is a transfer certificate, the audit service request asked for revenues, operation and maintenance expense, and taxes other than income for 2009 and 2010.

The Utility refers to Harbor Hills Utility, L.P., a water utility being transferred from Harbor Hills Utilities, L.P to Aqua Utilities of Florida. In addition, the application requested the Commission approve the certification of the wastewater treatment plant. The wastewater treatment plant was permitted in 1989 and built in 1990. Harbor Hills Country Club is the legal owner of the wastewater land and plant. The Harbor Hills Country Club does not charge for wastewater.

History

On April 20, 1989, Lake Griffin Utilities, Inc. filed an application for a certificate to provide water service in Lake County. Order No. 21835, issued September 5, 1989, granted the Utility Certificate No. 522-W. On June 6, 1990, the Florida Public Service Commission issued Order No. 23039, which established rates and charges, and appropriate allowance for funds prudently invested (AFPI) charges.

In 1992, all property belonging to Mr. John McNamara, including Lake Griffin, was confiscated by the United States Government through a Decree of Forfeiture and Order Appointing a Special Trustee. On May 5, 1994, an application was filed with the Commission requesting approval of the transfer of Certificate No. 522-W from Lake Griffin Utilities, Inc. to Harbor Hill Utilities, LP. The United State Government retained possession of the Utility until the Commission approved the transfer in Order No. PSC-95-1098-FOF-WU in Docket 940453-WU, issued December 13, 1994. Also, at this time, rate base was established for purpose of the transfer in June of 1994.

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 Account (NARUC USOA).

Procedures: We examined the Utility's general ledger from 1994 to 2010 and determined it did not comply with the NARUC USOA from 1994 to 2000. However, since 2001, the general ledgers did comport with the NARUC USOA.

Rate Base

Utility Plant in Service

Objectives: The objectives are to determine plant-in-service for the period; to determine that additions are authentic, recorded at original cost, and properly classified in compliance with

Commission Rules and the NARUC USOA; and to verify that proper retirements are made when a replacement item was put into service.

Procedures: We scheduled water Utility Plant in Service (UPIS) for the audit period using the Utility's books and records. We traced water additions and retirements from June 30, 1994 to December 31, 2010, to source documentation and to the general ledger. We reconciled the beginning balances of water UPIS at June 30, 1994 as per the last Commission Order¹, and noted that the adjustments were made. The Utility stated that there was no documentation for wastewater plant. Audit Finding 1 discusses our findings.

Land & Land Rights

Objectives: The objectives are to determine utility land exists, is used for utility operations, and is owned by the Utility or is secured under a long-term lease; and to determine utility land is recorded at the original cost when the land was first dedicated to public service.

Procedures: We scheduled the water utility's land using the Utility's books and records. We reconciled the beginning balance at June 30, 1994 as per the last Commission Order, and noted that the adjustment was made. The Utility stated that there was no documentation for wastewater land. We determined that Harbor Hills Country Club is the legal owner of the wastewater land. Audit Finding 2 discusses our findings.

Contributions-in-Aid-of-Construction

Objectives: The objective is to determine that Utility Contributions in Aid of Construction (CIAC) balances 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 the beginning balances at June 30, 1994 as per the last Commission Order and noted that the adjustment was made. We verified the Utility's collection of tap in, hook-up, or service fees agreed with the Commission approved tariff. The Utility stated that there was no documentation for wastewater CIAC.

Accumulated Depreciation

Objectives: 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 by Rule 25-30.140, Florida Administrative Code (F.A.C.).

Procedures: We calculated accumulated depreciation for the audit period using depreciation rates from Rule 25-30.140, F.A.C. from June 30, 1994 to December 31, 2010. Our schedules included beginning and ending balances by UPIS sub-account, methodology for calculating annual accumulated depreciation accruals, and yearly depreciation expense. Starting with the balance as per the last Commission Order, including ordered adjustments, we calculated balances

¹ See Order No. PSC-94-1543-FOF-WU, issued December 13, 1994, Docket No. 940453-WU, in Re: Application for Transfer of Certificate No. 522-W From Lake Griffin Utilities, Inc. to Harbor Hills Utilities, L.P. in Lake County.

as of December 31, 2010. No further work was done. The Utility stated that there was no documentation for wastewater accumulated depreciation.

Accumulated Amortization of CIAC

Objectives: The objectives are to determine that CIAC is amortized in accordance with Commission rules and orders and is consistent with the calculation of depreciation expense.

Procedures: We scheduled accumulated amortization of water CIAC for the audit period. We reconciled the beginning balance at June 30, 1994 as per the last Commission Order and recalculated the accumulated amortization of CIAC using a composite rate and reconciled the ending balances to the general ledger. The Utility stated that there was no documentation for wastewater accumulated amortization of CIAC.

Net Operating Income

Operating Revenue

Objectives: The objectives are to determine that utility revenues for the audit period are calculated correctly; and to determine that the Utility uses the Commission approved tariffs to bill customers.

Procedures: We reviewed the current Commission approved tariff schedules for the Utility's monthly water services, customer deposits, miscellaneous service charges, and service availability charges. We reviewed the Utility billing records for 2009 and 2010. The Utility bills their customers every other month. We recalculated several customer bills and reconciled revenues reported on the Regulatory Assessment Fee (RAF) filing to the Utility's books and records. We reviewed Rule 25-30.434 F.A.C. and the tariff authorizing the allowance for funds prudently invested (AFPI). The Utility stated that there was no documentation for wastewater revenues because there is no tariff, therefore they do not bill for wastewater.

Operation and Maintenance Expense

Objectives: The objectives are to determine that operation and maintenance (O&M) expenses are classified according to Commission Rules and the NARUC USOA and that expenditures are recorded in the proper period and are appropriate for regulatory policy.

Procedures: We scheduled water and wastewater O&M expense for 2009 and 2010 from invoices, insurance policies, cancelled checks and other source documentation.

Depreciation and Amortization

Objectives: The objective is to determine depreciation and amortization expense for the period ended December 31, 2010.

Procedures: We compiled a schedule from verified water UPIS items and recalculated depreciation based on the methodology for calculating annual accumulated depreciation accruals for 2010. We also recalculated amortization of CIAC using a composite rate. The Utility stated that there was no documentation for wastewater depreciation and amortization of CIAC.

Taxes Other than Income

Objectives: The objectives are to determine the appropriate costs for taxes other than income (TOTI) for the years 2009 and 2010; and to determine that the Utility has remitted the correct amount of RAF for the most recent calendar year.

Procedures: We compiled schedules of all water taxes other than income and reconciled them to the General Ledger. We verified real estate, tangible property taxes, and payroll taxes. RAF was calculated based on audit determined revenues. The Utility stated that there was no documentation for wastewater TOTI.

Federal Income Tax Return

Objectives: The objectives are to review the Federal Income Tax returns since 1994 to verify any amounts of water and/or wastewater plant capitalized or written off to cost of goods sold.

Procedures: We reviewed Federal Income Tax Returns from June 30, 1994 to December 31, 2010 and verified that no amounts of water and/or wastewater plant were capitalized or written off.

Audit Findings

Finding 1: Utility Plant in Service - Wastewater

Audit Analysis: We requested documentation for the Wastewater Treatment Plant. The Wastewater Treatment Plant was permitted in 1989 and built in 1990. The Utility stated that there is no documentation available. We recommend an original cost study be performed to determine the appropriate balances.

Effect on the General Ledger: N/A

Effect on the Filing: N/A

This finding is for informational purposes only.

Finding 2: Land - Wastewater

Audit Analysis: We requested a deed for land for the wastewater treatment plant. The Utility stated that there is no documentation available and the wastewater treatment plant is owned by Harbor Hills Country Club and not the Utility. As per Rule 25-30.033 (j), F.A.C. the land used by a utility must show evidence, in the form of a warranty deed, or a copy of an agreement which provides for the continued use of the land, such as a 99-year lease to which the treatment facilities are locate or will be located.

Effect on the General Ledger: N/A

Effect on the Filing: N/A

This finding is for informational purposes only.

Finding 3: Guaranteed Revenues/AFPI

Audit Analysis: As per Order 23039, issued June 6, 1990, the Commission denied the Utility's proposed charges for AFPI and set new rates based upon changes to depreciation and cost of equity. In Order 23039, the Commission's original rate analysis of AFPI is based at 80% of build-out, and therefore they capped the charges at 80% of build-out which was expected to occur in 1995. The tariffed charges with an effective date of June 28, 1990 would continue to escalate until the month the Utility reaches 650 ERC's or December 1995, whichever came first. The capped AFPI charge should be collected on all future connections until the system is serving 813 ECR's at which time the charge will cease. As per the 2010 Annual Report, the present ERC's are 615. Based on our review, the Utility appears to be in compliance with this order. The balance is \$4,487.36 as of December 31, 2010.

Effect on the General Ledger: N/A

Effect on the Filing: N/A

This finding is for informational purposes only.

Exhibits

Exhibit 1: Water Rate Base

**Harbor Hills Utilities, L.P.
Schedule of Water Rate Base
As of December 31, 2010**

	Balance Per Utility at December 31, 2010	Audit Adjustment	Balance Per Audit Staff at December 31, 2010
Utility Plant in Service	\$ 1,724,697.34	\$ -	\$ 1,724,697.34
Land & Land Rights	\$ 12,500.00	\$ -	\$ 12,500.00
Accumulated Depreciation	\$ (721,667.28)	\$ -	\$ (721,667.28)
Contributions in Aid of Construction	\$ (779,193.00)	\$ -	\$ (779,193.00)
Accumulated Amortization of CIAC	\$ 328,396.00	\$ -	\$ 328,396.00
Working Capital Allowance (1)		\$ -	
Total Rate Base	<u>\$ 564,733.06</u>	<u>\$ -</u>	<u>\$ 564,733.06</u>

Note (1): Working capital was not calculated, as this is a transfer audit.

Exhibit 2: Water Net Operating Income

Harbor Hills Utilities, L.P. Schedule of Water Net Operating Income As of December 31, 2010			
Description	Balance per Utility as of 12/31/2010	Audit Adjustment	Balance per Audit as per 12/31/2010
Operating Revenues	\$ 371,228.58	\$ -	\$ 371,228.58
Operation & Maintenance Expenses	\$ 327,718.04	\$ -	\$ 327,718.04
Depreciation Expense	\$ 42,634.00	\$ -	\$ 42,634.00
CIAC Amortization Expense	\$ (19,307.00)	\$ -	\$ (19,307.00)
Taxes Other Than Income	\$ 45,546.40	\$ -	\$ 45,546.40
Total Operating Expenses:	\$ 396,591.44	\$ -	\$ 396,591.44
Net Operating Income (Loss)	\$ (25,362.86)	\$ -	\$ (25,362.86)