

State of Florida



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: March 4, 2002
TO: Division of Economic Regulation (Clapp)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Docket #011401-WU; Heartland Utilities, Inc.; Audit Purpose: To establish rate base for transfer of utility; Audit Control No. 01-337-3-2**

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 work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

Orlando District Office

**HEARTLAND UTILITIES, INC.
SEBRING LAKES**

ESTABLISH RATE BASE AT TRANSFER

AS OF OCTOBER 31, 2001

**DOCKET NO. 011401-WU
AUDIT CONTROL NO. 01-337-3-2**

A handwritten signature in cursive script, appearing to read "Richard F. Brown".

Richard F. Brown, Audit Manager

A handwritten signature in cursive script, appearing to read "Charleston J. Winston".

Charleston J. Winston, District Audit Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

February 20, 2002

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedule of rate base as of October 31, 2001, for Sebring Lakes, a system of Heartland Utilities, Inc. The attached rate base schedule was prepared by the audit staff as part of our work in the utility's application for a Certificate of Transfer in Docket No. 011401-WS.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should 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 FINDING

The books and records of the utility were not maintained in substantial compliance with NARUC Water Class "C" Instructions 2.A. and B.

Water utility-plant-in-service was understated by \$20,122.35.

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:

Scanned - The documents or accounts were read quickly looking for obvious errors.

Verified - The item was tested for accuracy and compared to the substantiating documentation.

RATE BASE: Prepared rate base for Sebring Lakes, a system of Heartland Utilities, Inc., as of October 31, 2001. Verified approximately 90 percent of all plant additions from the inception of the utility, January 23, 1998 through October 31, 2001. Verified approximately 95 percent of contributions-in-aid-of-construction (CIAC) additions. Computed the depreciation and amortization accumulations as of October 31, 2001.

OTHER: Scanned the federal income tax returns from 1996 through 2000. Recalculated a judgmental sample of customer bills applying FPSC-approved tariff rates.

Exception No. 1

Subject: Books and Records

Statement of Fact: NARUC, Class C, Accounting Instruction 2.A, requires all water and wastewater utilities to maintain their accounts on an accrual basis.

NARUC, Class C, Accounting Instruction 2.B, requires all water and wastewater utilities to maintain its books and records,

. . . so that all books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner to support fully the facts pertaining to such entries.

Rule 25-30.115(1), Florida Administrative Code (F.A.C.), requires all water and wastewater utilities to maintain their accounts and records in conformity with the NARUC Uniform System of Accounts (USOA).

Recommendation: The utility's books and records are not closed on a monthly basis. The books of account did not reflect the segregation of operations applicable to the three water systems (DeSoto, Sebring Country Estates, and Sebring Lakes) of Heartland Utilities, Inc. Some of the supporting documentation did not contain or reflect the account charged and adequate descriptions. Other noncompliance with NARUC and Commission rules are shown in the exceptions that follow.

The Commission should require the utility to conform to the USOA and Commission rule cited above.

Exception No. 2

Subject: Water Utility Plant-in-Service (UPIS)

Statement of Fact: Per the utility's general ledgers donated water plant of \$20,122.35 recorded as contributions-in-aid-of-construction (CIAC), was not reflected in utility plant accounts.

Recommendation: Staff recommends that the following plant account balances be increased as follows by \$20,122.35, in recognition of the unrecorded amounts.

Account 331 - Transmission & Distribution Equipment	\$10,670.00
Account 333 - Services	3,222.00
Account 334 - Meters	<u>6,230.35</u>
	\$20,122.35

Exception No. 3

Subject: Accumulated Depreciation and Amortization

Statement of Fact: The books of Sebring Lakes reflected \$30,312.96 and \$31,569.28 of accumulated depreciation and accumulated amortization of CIAC, respectively, as of December 31, 2001.

Recommendation: Sebring Lakes was sold to AquaSource on October 30, 2001. Therefore, the audit staff adjusted the utility balance from December 31, 2001 to October 31, 2001.

Additionally, utility depreciation rates applied in three plant functional accounts (Distribution Reservoirs, Services, and Water Treatment Equipment) were adjusted to reflect the guideline rates per Rule 25-30.140, Florida Administrative Code (F.A.C.), and depreciation on donated property (CIAC) not recorded in plant by the utility was added to the reserve balance as of October 31, 2001.

The audit staff reduced the reserve by \$1,686.50 to reflect the 10-month period in 2001. To recognize the application of Rule 25-30.140, F.A.C., rates, the reserve was increased by \$826.75. The accumulated depreciation on the unrecorded plant was computed to be an increase of \$1,270.79. The net increase to accumulated depreciation should be \$411.04 ($-\$1,686.50 + \$826.75 + \$1,270.79$). The staff-adjusted reserve balance as of October 31, 2001, is \$30,724.00 ($\$30,312.96 - \$1,686.50 + \$826.75 + \$1,270.79$).

The plant investment was fully funded by the Florida Department of Environmental Protection and the customers connecting to the system. (See Disclosure No. 1.) Therefore, the accumulated amortization of CIAC would be the same as the accumulated depreciation as of October 31, 2001. The utility's accumulated amortization balance of \$31,569.28 should be reduced by \$845.28 to reflect the staff-adjusted amount of \$30,724.00 as of October 31, 2001.

Staff recommends that the reserve balances of plant be adjusted as shown in the schedule on the following page.

Exception No. 3, continued.

	<u>Per Staff</u> <u>@10-31-01</u>	<u>Per Utility</u> <u>@10-31-01</u>	<u>Difference</u>
Account 108-304 - Structures & Improvements	\$3,117.79	\$3,314.89	(\$197.10)
Account 108-307 - Wells & Springs	4,671.12	4,930.63	(259.51)
Account 108-311 - Pumping Equipment	7,030.65	7,425.41	(394.76)
Account 108-320 - Water Treatment Equipment	1,946.85	567.47	1,379.38
Account 108-330 - Distribution Reservoirs	3,495.50	4,313.18	(817.68)
Account 108-331 - Transmission & Distribution	8,570.62	8,783.71	(213.09)
Account 108-333 - Services	156.15	35.25	120.90
Account 108-334 - Meters	<u>1,735.32</u>	<u>942.42</u>	<u>792.90</u>
Total Accumulated Depreciation per staff at 10/31/00	<u>\$30,724.00</u>	<u>\$30,312.96</u>	<u>\$411.04</u>

Disclosure No. 1

Subject: Water Rate Base

Statement of Fact: On April 13, 1998, the Florida Department of Environmental Protection (FDEP) entered into a Special Service Availability Agreement with Heartland Utilities, Inc. to provide funding for a water supply system to serve 18 customers with contaminated wells.

The entire investment in this system, known as Sebring Lakes, was funded by the FDEP and the connecting customers, with the exception of the land which was acquired on January 23, 1998, for \$4,800.00.

Recommendation: The audit staff determined rate base for transfer purposes to be \$4,800.00.

Disclosure No. 2

Subject: **Acquisition Adjustment**

Statement of Fact: Heartland Utilities, Inc. sold Sebring Lakes to AquaSource Utility, Inc. on October 30, 2001, for \$90,000.

Recommendation: An acquisition adjustment has not been requested by the utility.

EXHIBIT I

**HEARTLAND UTILITIES, INC.
SEBRING LAKES
WATER RATE BASE
DOCKET NO. 011401-WU
ESTABLISH RATE BASE AT TRANSFER
AS OF OCTOBER 31, 2001**

DESCRIPTION	PER UTILITY	AUDIT EXCEPTION	REFER TO	PER AUDIT
UTILITY PLANT-IN-SERVICE	\$290,780.05	\$20,122.35	E2	\$310,902.40
LAND	4,800.00	0.00		4,800.00
ACCUMULATED DEPRECIATION	(30,312.96)	(411.04)	E3	(30,724.00)
CONTRIBUTIONS-IN-AID-OF- CONSTRUCTION (CIAC)	(310,902.40)	0.00		(310,902.40)
ACCUMULATED AMORTIZATION OF CIAC	<u>31,569.28</u>	<u>(845.28)</u>	E3	<u>30,724.00</u>
TOTAL	(\$14,066.03)	\$18,866.03		\$4,800.00