

State of Florida



Public Service Commission

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

DATE: April 2, 2002
TO: Division of Economic Regulation (Johnson)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: Docket # 011632; Linadale Water Co.; Audit Purpose: establish a current rate base as of the date of transfer; Audit Control No. 02-009-3-3

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 (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

Ms. Fannie J. Shields, Owner
Linadale Water Company
24901 So. East County Highway 42
Umatilla, FL 32784-9144

Ms. Pamela Christmas, Manager
Sunshine Utilities of Central Florida, Inc.
10230 East Highway 25
Bellevue, FL 34420

DOCUMENT NUMBER-DATE
03859 APR-5 2002
FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

Orlando District Office

LINADALE WATER COMPANY

RATE BASE DETERMINATION AUDIT

AS OF NOVEMBER 15, 2001

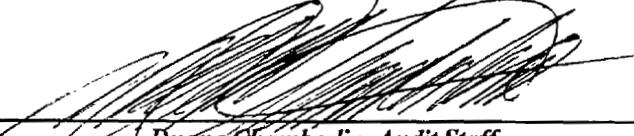
**DOCKET NO. 011632-WU
AUDIT CONTROL NO. 02-009-3-3**



Misty B. Shepherd, Audit Manager



Intesar Terkawi, Audit Staff



Duane Chamberlin, Audit Staff



Charleston J. Winston, District Audit Supervisor

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE	1
	DISCLAIM PUBLIC USE	1
	SUMMARY OF SIGNIFICANT FINDINGS	2
	SUMMARY OF SIGNIFICANT PROCEDURES	2
II.	EXCEPTIONS	
1.	BOOKS AND RECORDS	3
2.	UTILITY PLANT-IN-SERVICE (UPIS)	4
3.	LAND	5
4.	CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION AND ACCUMULATED AMORTIZATION	7
5.	ACCUMULATED DEPRECIATION	8
6.	CUSTOMER DEPOSITS	10
7.	SERVICE TERRITORY	11
III.	EXHIBIT	
1.	RATE BASE	12

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

March 18, 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 November 15, 2001, for Linadale Water Company. The attached schedule was assembled by the audit staff as part of our work in Docket No. 011632-WU.

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 FINDINGS

The utility did not maintain its books and records in accordance with the NARUC Uniform System of Accounts.

The utility plant-in-service (UPIS) is understated by \$19,275.

The utility's land value should be stated at \$3,733.

The balances for CIAC and amortization of CIAC were \$50,856 and \$26,931, respectively, as of November 15, 2001.

The utility was collecting customer deposits above the amount allowed in its tariff, but had failed to return the deposits by the time the utility was sold on November 15, 2001.

The utility is servicing areas outside its approved service territory.

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 the 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.

Confirmed - Evidential matter supporting an account balance, transaction, or other information was obtained directly from an independent third party.

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

Exception No. 1

Subject: Books and Records

Statement of Fact: Linadale Water Company provides water service to 269 residential customers, a convenience store, and a church that are all located in Marion County.

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).

NARUC, Class C, Accounting Instruction 2. A, states,

The books of accounts of all water and wastewater utilities shall be kept by the double entry method on an accrual basis.

NARUC, Class C, Accounting Instruction 2. B, states,

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

Recommendation: The utility does not maintain its books per the Commission rules cited above.

Per the utility, the records were destroyed in 2000 by vandalism.

The records that were provided were maintained on a cash basis for income tax purposes.

The utility was not able to provide sufficient historical records and supporting source documentation for the audit staff to prepare schedules that identify specific additions to UPIS and its associated accumulated depreciation to water operations up to the date of transfer, November 15, 2001.

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

Exception No. 2

Subject: Utility Plant-in-Service (UPIS)

Statement of Fact: Per the utility's Annual Report, the balance for UPIS was \$78,642, as of December 31, 2000. There were no plant additions in 2001.

FPSC Order No. 11219, issued October 4, 1982, established a balance for UPIS of \$65,732, as of July 31, 1981.

In the last audit, Docket No. 881361-WU, the UPIS balance was established at \$91,563, as of December 31, 1988.

According to the utility, the utility records were destroyed by vandalism sometime in February or March 2001.

Recommendation: In the prior audit mentioned above, the audit staff verified plant additions of \$25,831 for the period ending December 31, 1988.

Due to the destruction of records mentioned above, the audit staff was only able to verify the addition of a 2,100-gallon hydropneumatic tank, for \$9,324 to Account 340. Accordingly, a retirement of \$1,207 should be made to remove the old tank from UPIS Account 331, with a corresponding adjustment to accumulated depreciation as discussed in Exception No. 5 of this report.

During conversations with the new owner, the audit staff discovered that no office furniture was being transferred. Therefore, the audit staff has removed \$1,560 from Account 340 and \$1,476 from accumulated depreciation.

By incorporating the additions verified in the above-mentioned prior audit and the adjustments detailed above, the audit staff has calculated UPIS balance of \$97,917, as of November 15, 2001.

The utility should increase its UPIS balance by \$19,275 (\$97,917 - \$78,642).

Exception No. 3

Subject: Land

Statement of Facts: Per the Annual Report, the utility reported no balance in Account 301, Land and Land Rights, as of December 31, 2000.

In FPSC Order No. 11219 , issued October 4, 1982, the value of the land was established at \$425, which consists of two lots valued at \$135 and \$290.

There were no land additions to the utility.

Recommendation: The prior audit, Docket No. 881361-WU Exception No. 3, states as follows:

The lot valued at \$135 was the old well site which had been cited by Department of Environmental Protection and was sold several years ago. The current well site, which was valued at \$290, is still owned by the utility.

The balance in Account 301, Land and Land Rights should be \$290.

Alternative Recommendation: Audit Disclosure No. 1 of the above-mentioned prior audit states as follows:

Valuation of the current utility well site, lot 12, block D, Sandy Acres Estates Unit 2, Marion County, was based upon the current owner's pro-rata cost of purchase. This valuation, which amounted to \$290 during the course of the last utility rate case, may be an undervaluation.

Current Commission policy is to value land at historical cost. However, if circumstances warrant, some other means of valuation may be considered. See Order No. 20023 issued September 19, 1988 for an example of valuation at other than historical cost.

In 1980 to 1981, the utility was required to acquire a new well site (the one currently in use) due to citations from the Department of Environmental Regulation. Prior to the citations, there was no requirement for the utility to acquire a new well. The land used for the current well site was part of the developer's inventory of land held for future resale. As the developers and the utility owners were the same family members, the value set in the prior Rate Order was the pro-rata original cost to the developers. Because the land was not dedicated to public service at the time of its purchase, the Commission may wish to consider valuation at the time the land was dedicated to public use, i.e., valuation in February 1981.

Research at the Marion County Courthouse found two sales in the Sandy Acres Estates Unit 2 area between the utility owner/developer and unrelated parties. These lots were smaller than the utility lot but they do provide a means of valuation since they were arm's-length transactions at about the same time the utility was required to find a new well site.

Exception No. 3 (continued)

The average price paid by the non-related parties for lots about seventy-five percent the size of the utility lot was \$2,800. If this value is considered fair market value, the utility lots would have a fair market value of \$3,733 ($\$2,800/.75$).

This alternative recommendation is shown in the Rate Base exhibit provided on page 11 of this report.

Exception No. 4

Subject: Contributions-in-Aid-of-Construction (CIAC) and Accumulated Amortization

Statement of Fact: In the utility's Annual Report ended December 2000, the utility reported a zero balance for CIAC. In the same report, the utility stated that the number of customers for the CIAC purpose was 269.

Per the utility's tariffs, the following service availability charges should be collected:

Meter Charge	<u>\$150</u>
--------------	--------------

Per NARUC, Account No.271, Contribution in Aid of Construction, this account shall include:

Any amount or item of money, services or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility, and which is utilized to offset the acquisition, improvement or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public.

According to the prior audit ended December 31, 1988, Docket No. 881361-WU, the number of customers for the CIAC purpose was 217. Also, the CIAC balance was \$43,056, and the accumulated amortization balance was \$12,686.

Fifty-two customers were added to the records between December 31, 1988, and November 15, 2001, without increasing the CIAC balance.

Recommendation: The prior audit stated that the CIAC account should be \$43,056, as of December 31, 1988. The audit staff calculated CIAC additions of \$7,800, as of November 15, 2001. The total CIAC balance should be \$50,856 (\$43,056 + \$7,800), as of November 15, 2001. The calculation is done based on the 217 customers' connections from the prior audit and the 52 new customers' connections that were added between the years 1989 and 2001.

Using the composite rate of 2.5 percent and the half-year convention method which were incorporated in the prior audit, in Docket No. 881361-WU and in Order No. 11219, issued on October 4, 1982, the audit staff calculated the CIAC accumulated amortization account balance of \$26,931, as of November 15, 2001. The utility did not report any accumulated amortization balance.

Exception No. 5

Subject: Accumulated Depreciation

Statement of Fact: Per the utility's 2000 Annual Report, the balance for the accumulated depreciation was \$67,372.

Order No. 11219, issued on October 4, 1982, established the balance of \$13,627, as of July 31, 1981, and established a depreciation rate of 2.5 percent for all plant accounts.

Per the prior audit work performed in Docket No. 881361-WU, the balance for accumulated depreciation was \$28,577, as of December 31, 1988.

Recommendation: The audit staff is removing \$1,560 of Office Equipment that was not transferred with the sale of Linadale. Audit staff is also removing \$1,207 of Transmission and Distribution Mains that should have been retired in 2000. The associated accumulated depreciation of \$1,560 and \$1,207 for Office Equipment and Transmission and Distribution Mains, respectively, should also be removed.

By incorporating the audit work performed in Docket No. 881361-WU and using the depreciation rate above in Order No. 11219, the audit staff has calculated an accumulated depreciation balance of \$57,137, as of November 15, 2001.

Per the utility, the balance for the accumulated depreciation was \$67,372 as of December 31, 2000. The audit staff used the depreciation rates applied by the utility to calculate a per utility accumulated depreciation balance of \$68,020, as of November 15, 2001, since its books are not closed monthly.

The utility should decrease accumulated depreciation by \$10,883 (\$57,137 - \$68,020).

Alternative Recommendation: Order No. 11219, established a depreciation rate of 2.5 percent for all plant accounts. The utility has depreciated its plant balances at a higher/accelerated rate than prescribed in the prior Order No. 11219 and consequently increased its depreciation expenses in prior years.

Order No. PSC-01-2311-PAA-WS, issued November 26, 2001, states as follows.

. . . the audit recommended adjustments to correct errors in the depreciation rates for the utility's water and wastewater facilities. We disagree that any such adjustments need to be made. The developer-owner chose to depreciate the water and wastewater plant at a more accelerated rate than the average service lives listed in Rule 25-30.140, Florida Administrative Code. Therefore, although the utility did not use the guideline average service lives set forth in the rule to depreciate its assets, we find that no adjustments to depreciation are necessary.

Exception No. 5 (continued)

Being consistent with Order PSC-01-2311-PAA-WS, the audit staff does not recommend an adjustment to accumulated depreciation since the utility used an accelerated depreciation rate in prior years.

An adjustment should, however, be made for the retirements of the tank and office furniture and equipment for \$2,767 (\$1,560 + \$1,207), as discussed above.

This alternative recommendation is shown in the accompanying Rate Base exhibit provided on page 11 of this report.

Exception No. 6

Subject: Customer Deposits

Statement of Facts: The utility tariff allowed the utility to charge a customer deposit of \$15.

According to the utility bank records of July 2000 through October 2001, the utility collected \$3,083 in customer deposits. No records were provided to the audit staff prior to this period.

Rule 25-30-311, 4(a), F.A.C., states that,

Each utility which requires deposits to be made by its customers shall pay a minimum interest on such deposits of 6% per annum.

Recommendation: From the utility bank records, the audit staff determined the utility was charging between \$50 and \$100 per customer.

The audit staff calculated \$3,083.32 in customer deposits and \$141.87 in interest (accrued at 6 percent) for the period of July 2000 through October 2001.

The utility should be required to return all outstanding customer deposits with interest, per the rule cited above.

Exception No. 7

Subject: Service Territory

Statement of Fact: A plant tour was conducted on March 4, 2002, with a serviceman of Sunshine Utilities of Central Florida, Inc.

The service territory was identified in Order No. 11219, issued October 4, 1982.

Recommendation: While on the plant tour, the audit staff noted that the utility is serving customers outside of its approved service territory.

There are two areas that consist of approximately 15 home sites and one convenience store that the utility is servicing outside of its approved territory.

The utility should be required to file for an amendment to its service territory.

EXHIBIT I**LINADALE WATER COMPANY
DOCKET NO. 011632-WU
WATER RATE BASE
AS OF NOVEMBER 15, 2001**

DESCRIPTION	PER UTILITY (1)	AUDIT EXCEPTION	REFER TO	PER AUDIT
UTILITY PLANT-IN-SERVICE	\$78,642	\$19,275	E2	\$97,917
LAND & LAND RIGHTS	0	3,733	E3	3,733
CONTRIBUTIONS-IN-AID-OF- CONSTRUCTION (CIAC)	0	(50,856)	E4	(50,856)
ACCUMULATED DEPRECIATION	(67,372)	2,767	E5	(64,605)
ACCUMULATED AMORTIZATION OF CIAC	0	26,931	E4	26,931
TOTAL	\$11,270	\$1,850		\$13,120

FOOTNOTE:

(1) Utility amounts are per the 2000 Annual Report. There were no additions in 2001.