

State of Florida



Public Service Commission

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

DATE: October 7, 2003
TO: Division of Economic Regulation (Johnson)
FROM: Division of Auditing and Safety (Vandiver) W
RE: **Docket No.** 030123-WS; **Company Name:** Sports Shinko Utility, Inc. d/b/a Grenelefe Utilities; **Audit Purpose:** Establish Rate Base As of the Date of Transfer; **Audit Control No.** 03-168-3-1

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 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

Thomas Dugan
Grenelefe Resort, L.L.C.
5601 Windhover Place
Orlando, FL 32819

Martin Friedman, Esq.
Rose Law Firm
600 South North Lake Blvd., Suite 160
Altamonte Springs, FL 32701

Rudy Arceo
Sports Shinko Utility, Inc. d/b/a Grenelefe Utilities
3200 State Road 546
Grenelefe, FL 33844-9732

DOCUMENT NUMBER-DATE

09762 OCT-8 3

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING

Tallahassee District Office

Sports Shinko Utility, Inc., d/b/a Grenelefe Utilities

Establish Rate Base As of the Date of Transfer

HISTORICAL PERIOD JANUARY 1, 1977, THROUGH JULY 1, 2002

DOCKET NO. 030123-WS
AUDIT CONTROL NO. 03-168-3-1


Barry Davis, Audit Manager

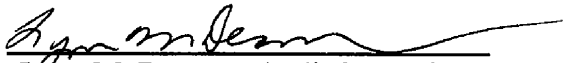

Lynn M. Deamer, Audit Supervisor

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE	1
	DISCLAIM PUBLIC USE	1
	OPINION	1
	SUMMARY OF SIGNIFICANT FINDINGS	2
	SUMMARY OF SIGNIFICANT PROCEDURES	2
II.	EXCEPTIONS	
1.	NARUC UNIFORM SYSTEM OF ACCOUNTS	4
2.	PLANT IN SERVICE	6
3.	LAND	8
4.	CIAC AND ACCUMULATED AMORTIZATION OF CIAC	9
5.	ACCUMULATED DEPRECIATION	10
III.	DISCLOSURES	
1.	SALE OF BANKRUPTCY ESTATE	11
IV.	EXHIBITS	
	WATER RATE BASE	12
	WASTEWATER RATE BASE	13

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

September 30, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare the accompanying schedule of Rate Base, for the historical period ended July 1, 2002, for Sports Shinko, Inc. d/b/a Grenelefe Utilities, Inc. The attached schedule was prepared by the audit staff as part of our work in Docket No. 030123-WS. There is no confidential information associated with this audit.

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 originally began providing service in 1977 to water and wastewater customers in Polk County, Florida. Sports Shinko Utility, Inc. d/b/a Grenelefe Utilities acquired the company in 1987. A grandfather certificate was granted by Order No. PSC-97-1546-FOF-WS issued on December 9, 1997 in Docket No. 961006-WS. Rate base was not set at this time. The utility has not been audited by this Commission. The utility was purchased in 2002, out of bankruptcy estate of Sports Shinko, by Grenelefe Resorts, LLC, a wholly owned subsidiary of Central Florida Investments, Inc. Grenelefe Resort Utility, Inc., a wholly owned subsidiary of Central Florida Investments, Inc., is set up to absorb the utility operation. However, utility assets have been designated as utility operations on the general ledger of Grenelefe Resorts, LLC and Grenelefe Resort Utility, Inc. does not have title to the utility assets. These are still owned by Grenelefe Resorts, LLC. Grenelefe Resorts, LLC, and Grenelefe Resort Utility, Inc., have no employees and are managed by Central Florida Investments, Inc.

The utility's books and records do not reflect the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts.

The seller did not maintain continuing property records.

Water Plant in Service and associated Accumulated Depreciation appear to be understated and Wastewater Plant in Service and associated Accumulated Depreciation appear to be overstated.

The lease on the land on which Water Plant #10 is located is between the Grenelefe Association of Condominium Owners No. 1, Inc., and Sports Shinko Utility, Inc., not the current owner.

Contributions in Aid of Construction (CIAC) are recorded as revenue and does not reflect the tariff. There is no accumulated amortization of CIAC.

Accumulated depreciation is not stated in accordance with Commission directives.

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.

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.

Examined - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

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

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

RATE BASE:

Determined that Plant in Service and Accumulated Depreciation components could not be traced to the original source documentation nor could most of the additions since the commencement of service be traced to source documentation.

Determined that the utility had an outside engineering company perform an original cost study on the water treatment plants in 1993. Contacted the engineering firm to inquire about a similar study performed for the wastewater treatment plant and water and wastewater distribution and collection lines. This engineering firm also did an original cost study of the wastewater treatment plant and collection lines. This report was not issued to Grenelefe and is stamped "for informational purposes only." Copies of both these reports were obtained.

Contacted the bankruptcy court responsible for selling the property and obtained a summary of the assets purchased.

Prepared summary schedules of utility plant and accumulated depreciation balances by approved USOA accounts based on the original cost studies.

Obtained a copy of the deed conveying title to the property in utility use, which was part of the property purchased from the bankruptcy estate of Sports Shinko, to Grenelefe Resorts, LLC. Grenelefe Resort Utilities, Inc., shares common ownership with Grenelefe Resorts, LLC. There is no record of Grenelefe Resorts, LLC, passing the title of the property in utility use to Grenelefe Resort Utilities, Inc.

Water Plant #10 was built on land owned by the Grenelefe Association of Condominium Owners No. 1, Inc. Obtained a copy of the lease agreement.

During the plant tour, no non-utility use of land was observed.

Determined that Contributions In Aid of Construction (CIAC) could not be traced from the

original source documentation nor could additions since the commencement of service be traced to source documentation.

Prepared summary schedules of CIAC and associated accumulated amortization balances by approved USOA accounts based on the unsubstantiated general ledger amounts.

Determined that there was no Plant Held for Future Use nor Construction Work In Progress (CWIP) at the date of transfer.

OTHER: Obtained sample of eleven customer bills, representing all classes of service. Verified that the utility's existing rates and charges are in accordance with its tariff.

EXCEPTIONS

Exception No. 1

Subject: NARUC Uniform System of Accounts

Statement of Fact: Commission Rule 25-30.115, F.A.C. requires water and wastewater utilities to maintain its books and records in conformity with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts.

NARUC, Class B, Accounting Instruction 2. A. states, "Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all facts referent thereto."

NARUC, Class B, Accounting Instruction 13, A. states: "All amounts included in the accounts for utility plant acquired as an operating unit or system, shall be stated at the cost incurred by the person who first devoted the property to utility service."

NARUC, Class B, Accounting Instruction 22, C, (3) states, "When a minor item of depreciable property is replaced independently of the retirement unit of which it is a part, the cost of replacement shall be charged to the maintenance expense account appropriate for the item, . . ."

NARUC, Class B, Account 271, Contributions In Aid of Construction A., states: "this accounts 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."

The NARUC USOA describes the amounts to be included in account 271, Contributions In Aid of Construction as: "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, 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." The NARUC USOA further states: "The records supporting the entries to this account shall be so kept that the utility can furnish information as to the purpose of each donation . . . and the amount applicable to each utility department." The utility appears to have collected from connecting customers. These amounts were not recorded as CIAC.

The utility does not maintain its books and records using the account numbers and instructions in accordance with the NARUC Uniform System of Accounts.

Recommendation: The utility should maintain its books and records in accordance with Commission Rule 25-30.115, F.A.C., Uniform System of Accounts for Water and Wastewater Utilities.

Exception No. 2

Subject: Plant In Service

Statement of Fact: In Commission Rule 25-30.110, F.A.C.: " Each utility shall preserve its records in accordance with the "Regulations to Govern the Preservation of Records of Electric, Gas and Water Utilities" as issued by the National Association of Regulatory Utility Commissions, as revised May 1985." These regulations, in Section 30 (b), require the utility to maintain a "Continuing plant inventory ledger, book or card records showing description, location, quantities, cost, etc., of physical units (or items) of utility plant owned." These records are to be retained for six years after the plant is retired.

The utility has no such records. In lieu of those records, the utility has, since the year 2000, maintained a subledger which includes a brief description of the plant item, the in-service date for the item and the acquired value of the item. This subledger is not sorted by NARUC account and mixes water and wastewater plant in some categories. The utility does have an Original Cost Study of the water treatment plant. The engineering firm that produced the Original Cost Study of the water treatment plant also did an Original Cost Study of the wastewater treatment plant and collection lines. This report was not issued to Grenelefe and is stamped "for informational purposes only" No such study was made of the water distribution lines.

Recommendation: The utility should maintain its books and records in accordance with Commission Rule 25-30.110, F.A.C., Uniform System of Accounts for Water and Wastewater Utilities. Staff has compiled plant in service based on the original cost studies, updated using annual report adjustments and adjusted for presumably retired vehicles, water lines, and water meters. The audit balance of plant in service is \$1,577,569 for water, which is \$165,748 higher than that reported in the annual report. The audit balance of plant in service is \$2,138,550 for wastewater, which is \$108,959 lower than that reported in the annual report.

Exception No. 3

Subject: Land

Statement of Fact: There is no balance for land included in the general ledger for the year ended July 1, 2002, nor is there any balance reported on any available annual report. The utility's books and records are not maintained in compliance with Commission Directives and the balance shown for land, was obtained from the 1993 and 1994 Original Cost Studies. (WP 16-3 series) There have been no additions since the study. One of the water plant sites and the wastewater plant sites appear to have been transferred to Grenelefe Resorts, LLC, during the bankruptcy sale. Grenelefe Resorts, LLC, has not transferred the original cost of the land to Grenelefe Resort Utility, Inc., which is managed by Central Florida Investments, Inc.

Water Plant #10 was built on land owned by the Grenelefe Association of Condominium Owners No. 1, Inc.

Recommendation: The original cost of the land for Water Treatment Plant #6, as shown on the 1993 Original Cost Study should be identified on the general ledger and annual reports as utility property and transferred to Grenelefe Resort Utility, Inc. The original cost of the land for the wastewater treatment plant and ponds, as shown on the 1994 Original Cost Study should be identified on the general ledger and annual reports as utility property and transferred to Grenelefe Resort Utility, Inc.

The lease between the Condominium Owners and the utility was executed in 1989 and shows Sports Shinko Utility, Inc. as the utility. This current lease is of sufficient duration and without restriction to allow the utility to continue providing service. This document should be re-executed with Grenelefe Resort Utility, Inc., or Grenelefe Resorts, LLC, the current owner of the utility.

Staff has compiled, based on the amounts shown on the original cost studies, an amount of land for inclusion in rate base. Land balances, based on the original cost studies, is \$3,000 for water and \$49,400.

Exception No. 4

Subject: CIAC and Accumulated Amortization of CIAC

Statement of Fact: The utility has no tariff authorizing the collection of connection charges. The general ledger shows that the utility has collected \$7,020 while under FPSC jurisdiction. The general ledger and annual report shows CIAC of \$9,612 for water and \$6,408 for wastewater, a total of \$16,020. This amount, \$16,020, less the \$7,020 collected while under FPSC jurisdiction shows that \$9,000 was collected prior to FPSC jurisdiction.

All collections of connection fees were recorded as revenue for both water and wastewater. These collections were allocated 60% to water and 40% to wastewater. There is no substantiation for these allocations. There is no continuing balance for revenues as there would be if these amounts had been properly recorded as CIAC. There is no supporting documentation, as required by the NARUC USOA. The utility's records do not conform to the NARUC USOA.

Commission Order No. PSC-97-1546-FOF-WS issued on December 9, 1997 in Docket No. 961006-WS authorized a meter installation charge of \$65 per connection. The utility did not file a tariff and has not made any collections to reflect this authorization.

Recommendation: Collections made without a supporting tariff would be required to be refunded to the customers. Since there is no record of which customers were charged the \$7,020 collected while under FPSC jurisdiction, this would not be feasible.

The utility should cease collecting connection charges from customers and should file a tariff authorizing the meter installation fee as authorized by the Commission.

Staff has compiled, based on the information available, an amount of CIAC and accumulated amortization of CIAC for inclusion in rate base. CIAC is shown as \$9,612 for water and \$6,408 for wastewater, the amounts recognized in the general ledger and annual report. The accumulated amortization of the connection charges was amortized by staff using a composite rate based on the plant as of December 31, 1995, when construction of the plant assets were essentially completed. Accumulated amortization of CIAC at July 1, 2002 is shown as \$2,946 for water, which is \$14,913 lower than that listed in the annual report and \$2,629 for wastewater, which is \$850,744 higher than that listed in the annual report.

Exception No. 5

Subject: Accumulated Depreciation

Statement of Fact: The utility maintains a subledger for depreciation calculations which includes a brief description of the plant item, the in-service date for the item, the acquired value of the item, the depreciation rate and depreciation calculations. This subledger is not sorted by NARUC account and mixes water and wastewater plant in some categories. The rates used do not conform with Rule 25-30.140, F.A.C. This rule specifically directs a utility to use the rates specified in the rule for rate proceedings before this Commission. There is no conversion table to convert the utility's accumulated depreciation to that based on the rule.

Recommendation: The utility should restate accumulated depreciation to represent use of the guideline rates found in Rule 25-30.140, F.A.C. and begin using those rates on a going forward basis.

Staff has compiled, based on the information available, an amount of accumulated depreciation for inclusion in rate base. Accumulated depreciation was recalculated using the plant balances compiled by staff and has applied the guideline rates from Rule 25-30.140 (3) F.A.C. The resulting calculation for July 1, 2002, is \$862,883 for water and \$2,009,995 for wastewater.

DISCLOSURES

Disclosure No. 1

Subject: Sale of Bankruptcy Estate

Statement of Fact: The estate of Sports Shinko, Florida, was purchased out of bankruptcy by Grenelefe Resorts, LLC, for \$12,750,000. The sale included Sports Shinko (Florida) Co., Ltd., Sports Shinko (Florida Realty), Inc., Sports Shinko Utility, Inc., and Grenelefe Realty, Inc. The United States Bankruptcy Court, Middle District of Florida, Tampa Division, listed the value of the properties in the estate at \$51,312,000.

Recommendation: This disclosure is for informational purposes only. The entire estate was purchased as a whole, which includes the utility, for 24.85% of its value, as reported by the court.

Grenelefe Utilities
 Establish Rate Base for Transfer
 Docket No. 030123-WS
 Description: Water Rate Base as of July 1, 2002

Audit Period Ended 7/1/02
 Audit Control No. 03-168-3-1

<u>Description</u>	<u>Balance per Utility</u>	<u>Audit Adjustment</u>	<u>Balance per Audit</u>
Plant In Service	\$1,408,821	\$165,748	\$1,574,569
Land/Non Depreciable Plant	0	3,000	3,000
Plant Held for Future Use	0	0	0
Acquisition Adjustment	0	0	0
Construction Work In Progress (CWIP)	0	0	0
Contributions In Aid of Construction (CIAC)	(9,612)	0	(9,612)
Accumulated Depreciation	(885,280)	22,397	(862,883)
Amortization of Acquisition Adjustment	0	0	0
Accumulated Amortization of CIAC	<u>1,702</u>	<u>1,244</u>	<u>2,946</u>
TOTAL RATE BASE	<u>\$515,631</u>	<u>\$192,389</u>	<u>\$708,020</u>

Grenelefe Utilities
 Establish Rate Base for Transfer
 Docket No. 030123-WS
 Description: Wastewater Rate Base as of July 1, 2002

Audit Period Ended 7/1/02
 Audit Control No. 03-168-3-1

<u>Description</u>	<u>Balance per Utility</u>	<u>Audit Adjustment</u>	<u>Balance per Audit</u>
Plant In Service	\$2,198,109	(\$108,959)	\$2,089,150
Land/Non Depreciable Plant	0	49,400	49,400
Plant Held for Future Use	0	0	0
Acquisition Adjustment	0	0	0
Construction Work In Progress (CWIP)	0	0	0
Contributions In Aid of Construction (CIAC)	(6,408)	0	(6,408)
Accumulated Depreciation	(1,159,251)	(850,744)	(2,009,995)
Amortization of Acquisition Adjustment	0	0	0
Accumulated Amortization of CIAC	<u>1,135</u>	<u>1,494</u>	<u>2,629</u>
TOTAL RATE BASE	<u>\$1,033,585</u>	<u>(\$908,809)</u>	<u>\$124,776</u>