



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: April 23, 2004
TO: Stephanie Clapp, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief, Bureau of Auditing *DNV*
Division of Regulatory Compliance and Consumer Assistance
RE: *WS* **Docket No.** 030998-SU; **Company Name:** CWS Communities, LP d/b/a
Haselton Village; **Audit Purpose:** Establish Ratebase at Transfer;
Audit Control No. 03-353-3-1

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 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

Kathryn G. W. Cowdery
Ruden Law Firm
215 S. Monroe Street, Suite 815
Tallahassee, FL 32301

Nancy M. Burke, Esq.
Katz, Kutter Law Firm
106 East College Ave., Suite 1200
Tallahassee, FL 32301

Hometown America, L.L.C.
150 North Wacker Drive, Suite 900
Chicago, IL 60606

CWS Communities LP
Sandra Danforth
14 Coral Street
Eustis, FL 32726-6710

DOCUMENT NUMBER-DATE

04919 APR 28 3

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

Orlando District Office

**CWS COMMUNITIES, LP
D/B/A HASELTON VILLAGE**

ESTABLISH RATE BASE AT TRANSFER

AS OF OCTOBER 16, 2003

**DOCKET NO. 030998-WS
AUDIT CONTROL NO. 03-353-3-1**

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, 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	5
3. CUSTOMER BILLING	7
4. CIAC AND RELATED AMORTIZATION	8
III. EXHIBIT	
WATER RATE BASE	9

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

April 5, 2004

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 16, 2003, for CWS Communities, LP, d/b/a Haselton Village. The attached schedule was prepared by the audit staff as part of our work in Docket No. 030998-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 FINDINGS

The utility's books and records were not in compliance with NARUC and the Commission Rules.

The utility was unable to provide documentation in support of rate base component amounts as of March 31, 1999.

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:

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

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

RATE BASE: Prepared Haselton Village's water rate base as of October 16, 2003. Compiled all plant additions acquired from April 1, 1999 through October 16, 2003, and verified to supporting documentation. Verified 100 percent of CIAC additions and agreed to the Commission-approved tariff. Computed accumulated depreciation and accumulated amortization as of October 16, 2003.

OTHER: Toured the water plant and facilities. Recalculated a sample of customer bills from the utility's billing register and agreed to the Commission-approved tariff.

Exception No. 1

Subject: Books and Records

Statement of Fact: Rule 25-30.115, Florida Administrative Code, (F.A.C.), requires Florida utilities to maintain their books and records in conformity with the NARUC, National Association of Regulatory Commissioners Uniform System of Accounts (USOA).

NARUC, Class C, Accounting Instruction, 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 relevant thereto.

NARUC, Class C, Accounting Instruction 4, states,

Each utility shall keep its books on a monthly basis so that for each month all transactions applicable thereto, as nearly as may be ascertained, shall be entered in the books of the utility. Amounts applicable or assignable to specific utility departments shall be segregated monthly. Each utility shall close its books at the end of each calendar year unless otherwise authorized by the Commission.

Rule 25-30.110(1)(a)2.(b), F.A.C., states,

Unless otherwise authorized by the Commission, each utility shall maintain its records at the office or offices of the utility within this state and shall keep these records open for inspection during business hours by Commission staff.

Recommendation: Haselton Village's records are commingled with those of the parent company. The utility records are not maintained in accordance with NARUC. Documentation was not maintained at the utility for plant additions and CIAC along with the associated depreciation and amortization. The utility could not reconcile plant-in-service to its tax returns.

Commission Order No. PSC-01-0425-PAA-WU, issued February 22, 2001, ordered that the utility maintain its books and records in conformance with the 1996 NARUC System of Accounts and submit a statement from its accountant by March 31, 2001, with the utility's 2000 Annual Report stating that its books and records are in conformance with the 1996 NARUC USOA and indicating that its books and records are being maintained in-state or that it is requesting authorization to maintain the utility's books and records out-of-state.

Exception No. 1, continued

Commission Order No. PSC-02-1028-FOF-WU, issued July 29, 2002, stated that CWS Communities LP, parent company of Haselton Village, provided a statement with its 2000 Annual Report, as directed per Order No. PSC-01-0425-PAA-WU, that the utility books and records were maintained in compliance with NARUC. However, CWS Communities LP did not request authorization for out-of-state record keeping.

The audit staff recommends that the aforementioned issues be revisited by the Commission as the records are still not maintained in compliance with NARUC, and all record keeping is not maintained in-state.

Exception No. 2

Subject: Utility-Plant-in-Service

Statement of Fact: The utility was unable to provide documentation in support of rate base components as of March 31, 1999. Commission Order No. PSC-01-0425-PAA-WU, issued February 22, 2001, states in part,

Although Section 367.071(5), Florida Statutes, states, "The commission by order may establish the rate base for a utility or its facilities or property when the commission approves a sale, assignment, or transfer thereof . . .," we find that rate base cannot be established at this time since the Commission staff was unable to obtain sufficient information to determine the utility's rate base at the time of transfer. CWS is hereby put on notice that an original cost study may be required when the utility files a rate petition if the utility cannot provide the original cost documentation.

Recommendation: CWS Communities, LP, d/b/a Haselton Village, in the current docketed transfer (Docket No. 030998-WS) to Hometown America, L.L.C. was still not able to provide documentation in support of utility-plant-in-service and related rate base components as of March 31, 1999.

An audit balance could not be established for plant, land, and accumulated depreciation. Therefore, the utility's balances have been excluded until such time that an Original Cost Study is conducted.

The schedule on the following page reflects the plant additions acquired from April 1, 1999 through October 16, 2003, and the related depreciation which should be considered for inclusion at such time that an original cost amount is derived.

Exception No. 2, continued

Account	Payee	Description	Date	Cost	Depreciation Rate	Accumulated Depreciation As of 10/16/03
311 - Pumping Equipment	Wayne's Diversified Services	Generator upgrade	9/24/02	\$6,800	5.88%	\$433
331 - Transmission & Distribution Mains	Wayne's Diversified Services	Flow meters	7/24/03	4,780	5.00%	60
331 - Transmission & Distribution Mains	Wayne's Diversified Services	Service valve	7/24/03	458	5.00%	6
				\$12,038		\$499

Exception No. 3

Subject: Customer Billing

Statement of Fact: Haselton Village has 285 occupied lots excluding the park clubhouse.

Haselton Village does not charge or bill 42 of the 285 customers for water services.

Commission Order No. PSC-94-0569-FOF-SU, issued May 13, 1994, states in part,

It is the view of the customers who are being served pursuant to that contract, that the Commission cannot legally alter that contract by changing their rates and charges for the provision of water and wastewater services. The Commission has been presented with this issue in the past and has taken the position that it does have the statutory authority to alter the provisions of pre-existing contracts establishing rates and charges. Pursuant to Chapter 367, Florida Statutes, the Commission has exclusive jurisdiction to regulate the provision of water and wastewater service by utilities, which of course, includes the establishment of rates and charges.

The contract referred to in the above Order is reference to a pre-existing contract detailing the charges to be assessed for wastewater service.

Commission Order No. PSC-03-1051-FOF-WS, issued September 22, 2003, states in part,

It is the Florida Legislature's intent that the Commission shall have exclusive jurisdiction over utilities with respect to authority, service, and rates pursuant to Section 367.011(2), Florida Statutes.

Recommendation: Haselton Village lot agreements reflect charges for rent, water, sewer, garbage, and stormwater.

All of the lot agreements, however, are lease driven which renders all charges negotiable as to cost.

Haselton Village submits regulatory assessment fees via its return only on revenues billed and collected.

The audit staff defers to the Tallahassee analyst for disposition of this matter.

Exception No. 4

Subject: CIAC and Related Amortization

Statement of Fact: CIAC and the related accumulated amortization as of March 31, 1999, per Order No. PSC-01-0425, issued February 22, 2001, were \$47,775 and \$20,686, respectively.

The CIAC balance was imputed based on 147 customers and the utility's service availability charge of \$325.

According to Haselton Village's records, the utility has 289 lots, excluding park models, that were occupied at some time from the period between March 31, 1999 and October 16, 2003.

Imputed CIAC from the additional 142 customers (289 - 147) based on the tariff rate would amount to \$46,150 (142 * \$325).

The total CIAC per the audit staff as of October 16, 2003, is \$93,925 (\$47,775 + \$46,150).

CIAC per audit staff as of 10/16/03	\$93,925
CIAC per utility as of 12/31/03	<u>47,775</u>
Recommended staff adjustment	\$46,150

The amortization on the CIAC balance was calculated at 3.1 percent.

The utility was unable to document when each of these additional 142 lots was originally occupied. Therefore, the amortization was based on the average balance between March 31, 1999 and October 16, 2003.

Per the audit staff, accumulated amortization of \$30,753 was based on the following computation.

\$47,775 * .031/12 months * 55 months	
or	\$6,788
\$47,775 * .031 * 4.58333 years	
\$46,150 * .00258333 * 27.5 months	
or	<u>3,279</u>
\$46,150 * .031 * 4.58333 years/2	
Total accumulated amortization per audit staff as of 10/16/03	\$30,753
Total accumulated amortization per utility as of 12/31/03	<u>22,510</u>
Recommended audit staff adjustment	<u>\$8,243</u>

EXHIBIT

**CWS COMMUNITIES, LP
D/B/A HASELTON VILLAGE
WATER RATE BASE
DOCKET NO. 030998-WS
AS OF OCTOBER 16, 2003**

DESCRIPTION	PER UTILITY AS OF 12/31/03(1)	AUDIT EXCEPTION	REFER TO	PER AUDIT AS OF 10/16/03
UTILITY PLANT-IN-SERVICE	\$201,679	(\$201,679)	AE 2	\$0
LAND	7,500	(7,500)	AE 2	0
ACCUMULATED DEPRECIATION	(105,075)	105,075	AE 2	0
CONTRIBUTIONS-IN-AID- OF- CONSTRUCTION (CIAC)	(47,775)	(46,150)	AE 4	(93,925)
ACCUMULATED AMORTIZATION OF CIAC	22,510	8,243	AE 4	30,753
TOTAL	\$78,839	(\$142,011)		(\$63,172)

Note:

- (1) Utility plant, land and CIAC did not change between December 31, 2002 and December 31, 2003, per the utility's Annual Reports.