

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: * May 10, 2004
TO: Stephanie Clapp, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief, Bureau of Auditing *DW*
Division of Regulatory Compliance and Consumer Assistance
RE: **Docket No.** 030998-WU ; **Company Name:** CWS Communities, LP d/b/a
Palm Valley; **Audit Purpose:** Establish ratebase at time of transfer ; **Audit
Control No.** 03-353-3-2

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)
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Division of Competitive Markets and Enforcement (Harvey)
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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING*

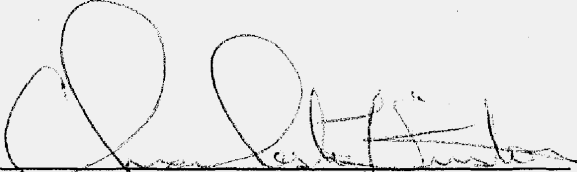
Orlando District Office

**CWS COMMUNITIES, LP
D/B/A PALM VALLEY**

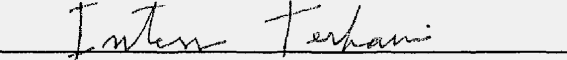
ESTABLISH RATE BASE AT TRANSFER

AS OF OCTOBER 16, 2003

**DOCKET NO. 030998-WS
AUDIT CONTROL NO. 03-353-3-2**



Charleston J. Winston, Audit Manager



Intesar Terkawi, Professional Accountant

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	4
3. ACCUMULATED DEPRECIATION	13
4. CIAC AND RELATED AMORTIZATION	17
5. CUSTOMER BILLING	24
3. EXHIBIT	
1. WATER RATE BASE	27
2. WASTEWATER RATE BASE	28

**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
AUDITOR'S REPORT**

April 28, 2004

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedules of Rate Base as of October 16, 2003, for CWS Communities, LP, d/b/a Palm Valley. The attached schedules were 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.

Utility-plant-in-service for water should be reduced by \$189,854 ,and wastewater increased by \$56,912.

Accumulated depreciation for water should be reduced by \$226,091, and wastewater increased by \$11,362.

Contributions-in-aid-of-construction (CIAC) for water should be increased by \$5,834, and wastewater increased by \$15,579.

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 definition applies when used in this report:

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

RATE BASE: Reconciled rate base as of July 31, 2001, to Commission Order No. PSC-02-1111-PAA-WS, issued August 13, 2002. Verified all plant additions acquired from August 1, 2001 through October 16, 2003. Verified all CIAC additions and agreed to the Commission-approved tariff. Computed accumulated depreciation and accumulated amortization as of October 16, 2003. Prepared Palm Valley's water and wastewater rate bases 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.

Per Commission Order No. PSC-01-1574-PAA-WS, issued July 30, 2001, "The utility failed to record retirements since the last rate case. We estimated retirements based on 75% of the replacement cost, where no original cost documentation was available."

Recommendation: Palm Valley'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 provide adequate support documentation for some of its plant additions. The utility did not record any retirements. The utility could not reconcile plant-in-service to its general ledgers and tax returns. The audit staff had to use the utility's Annual Reports as the basis for its plant, accumulated depreciation, CIAC, and CIAC accumulated amortization.

The Commission should require the utility to maintain its books and records in compliance with NARUC.

Exception No. 2

Subject: Utility-Plant-in-Service

Statement of Fact: Per the utility's 2003 Annual Report, the amount of plant-in-service for water is \$1,179,637, and wastewater is \$2,304,081 as of December 31, 2003.

Rate base was established for the utility as of July 31, 2001, in Commission Order No. PSC-02-1111-PAA-WS, issued August 13, 2002.

Recommendation: The utility misclassified plant, did not provide supporting documentation for some of its plant additions, did not reconcile to the above-mentioned Commission Order, and did not retire some of its plant. The transfer date of the utility was October 16, 2003, but the utility does not close its books monthly. The audit staff adjustments are as of October 16, 2003. The utility's books are as of December 31, 2003.

The audit staff determined water plant-in-service to be \$989,783 and wastewater to be \$2,360,993 as of October 16, 2003. The Commission should reduce water plant-in-service by \$189,854 (\$1,179,637 - \$989,783) and should increase the wastewater plant-in-service by \$56,912 (\$2,304,081 - \$2,360,993) See Schedules A, B, C, and D as follows for further details.

The Commission should require the utility to record the above adjustments.

Schedule A - Exception No. 2

WATER

Date	Per Utility	Difference	Per Order	Explanation
07/31/01 ^{es}			\$735,496	Beginning balance per above Order. Utility does not close its books monthly
	Per Utility	Difference	Per Audit	Explanation
2001 Additions	\$843,772	(\$601,985)	\$241,787	See Schedule C for details.
2001 Balance	\$1,129,637	(\$152,354)	\$977,283	See Schedule C for details.
2002 Additions	\$50,000	(\$37,500)	\$12,500	See Schedule C for details.
2003 Additions	\$0	\$0	\$0	
2003 Balance Per audit as of 10/16/03 Per Utility as of 12/31/03	\$1,179,637	(\$189,854)	\$989,783	Utility does not close its books monthly. These balances consist of 2001 balances + 2002 and 2003 additions.

Schedule B - Exception No. 2

WASTEWATER

Date	Per Utility	Difference	Per Order	Explanation
07/31/01			\$1,929,409	Beginning balance per above Order. Utility does not close its books monthly
	Per Utility	Difference	Per Audit	Explanation
2001 Additions	\$1,062,040	(\$667,239)	\$394,801	See Schedule D for details.
2001 Balance	\$2,196,285	\$127,925	\$2,324,210	See Schedule D for details.
2002 Additions	\$74,556	(\$58,586)	\$15,970	See Schedule D for details.
2003 Additions	\$33,240	(\$12,427)	\$20,813	See Schedule D for details.
2003 Balance Per-audit as of 10/16/03. Per utility as of 12/31/03	\$2,304,081	\$56,912	\$2,360,993	Utility does not close its books monthly. These balances consist of 2001 balances + 2002 and 2003 additions.

WATER

DATE	ACCT. NO.	DESCRIPTION	PLANT ADDITIONS	COMM. ALL. %	AMOUNT PER BOOKS	VENDOR	AUDIT ADJ.	AMOUNT PER AUDIT	AUDITOR'S COMMENTS
08/13/01	304	Unknown Plant Additions	\$95,807		\$95,807	Unkown	(\$95,807)	\$0	No support
08/13/01	309	Flow Meter	7,410		7,410	Wayne's		7,410	Reclass from 334
08/13/01	309	Installation Water Sup Lines	27,272		27,272	Wayne's		27,272	
		Total:	34,682		34,682			34,682	
05/13/01	310	Generator	65,000		65,000	Wayne's	(65,000)	0	Included in prior audit
05/13/01	311	Pump	6,000		6,000	Wayne's	(6,000)	0	Included in prior audit
05/13/01	311	Pumps	12,000		12,000	Wayne's	(12,000)	0	Included in prior audit
		Total:	18,000		18,000		(18,000)	0	
05/13/01	330	Pressure Vessel	26,000		26,000	Wayne's	(26,000)	0	Included in prior audit
05/13/01	330	Storage Tanks	152,000		152,000	Wayne's	(152,000)	0	Included in prior audit
		Total:	178,000		178,000		(178,000)	0	
08/13/01	331	T & D Lines	3,010	12.00%	3,420	C.A. Meyer		3,420	
08/13/01	331	T & D Lines	511	12.00%	581	C.A. Meyer		581	
08/13/01	331	T & D Lines	385	12.00%	438	C.A. Meyer		438	
08/13/01	331	T & D Lines	895	12.00%	1,017	C.A. Meyer		1,017	
08/13/01	331	T & D Lines	900	12.00%	1,023	C.A. Meyer		1,023	
08/13/01	331	T & D Lines	12,155	12.00%	13,813	C.A. Meyer		13,813	
08/13/01	331	T & D Lines	2,800	12.00%	3,182	C.A. Meyer		3,182	
08/13/01	331	T & D Lines	750	12.00%	852	C.A. Meyer		852	
08/13/01	331	T & D Lines	4,400	12.00%	5,000	C.A. Meyer		5,000	
08/13/01	331	T & D Lines	51,264	12.00%	58,254	C.A. Meyer		58,254	
08/13/01	331	T & D Lines	1,325	12.00%	1,506	C.A. Meyer		1,506	
08/13/01	331	T & D Lines	1,000	12.00%	1,136	C.A. Meyer		1,136	
08/13/01	331	T & D Lines	2,160	12.00%	2,455	C.A. Meyer		2,455	
08/13/01	331	T & D Lines	2,544	12.00%	2,891	C.A. Meyer		2,891	
08/13/01	331	T & D Lines	1,830	12.00%	2,080	C.A. Meyer		2,080	
08/13/01	331	T & D Lines	<u>1,375</u>	12.00%	<u>1,563</u>	C.A. Meyer		<u>1,563</u>	
		Total:	\$87,303		\$99,208			\$99,208	

Schedule C - Exception No. 2

DATE	ACCT. NO.	DESCRIPTION	PLANT ADDITIONS	COMM. ALL. %	AMOUNT PER BOOKS	VENDOR	AUDIT ADJUSTMENT	AMOUNT PER AUDIT	AUDITOR'S COMMENTS
08/13/01	333	Services to Customers	\$407	12.00%	\$463	C.A. Meyer		\$463	
08/13/01	333	Services to Customers	33,300	12.00%	37,841	C.A. Meyer		37,841	
08/13/01	333	Services to Customers	<u>13,690</u>	12.00%	<u>15,557</u>	C.A. Meyer		<u>15,557</u>	
		Total:	\$47,397		\$53,860			\$53,860	
01/02/01	334	Meters & Installations	66,648		66,648	Wayne's	(56,639)	10,009	Included in prior audit
08/13/01	335	Hydrants	2,808	12.00%	3,191	C.A. Meyer		3,191	
08/13/01	335	Hydrants	<u>21,060</u>	12.00%	<u>23,932</u>	C.A. Meyer		<u>23,932</u>	
		Total:	\$23,868		\$27,123			\$27,123	
08/13/01	336	Back Flow Preventer	16,905		16,905	Wayne's		16,905	Reclass from Acct. 339
05/13/01	339	Concrete Slabs	28,000		28,000	Wayne's	(28,000)	0	Included in prior audit
05/13/01	339	Soil Preparation	26,000		26,000	Wayne's	(26,000)	0	Included in prior audit
05/13/01	339	Controls	3,000		3,000	Wayne's	(3,000)	0	Included in prior audit
05/13/01	339	Process Piping	12,500		12,500	Wayne's	(12,500)	0	Included in prior audit
05/13/01	339	Electrical Modules	24,310		24,310	Wayne's	(24,310)	0	Included in prior audit
05/13/01	339	Unknown Plant Additions	56,639		56,639	Unknown	(56,639)	0	No support
05/13/01	339	Mobilization	<u>38,090</u>		<u>38,090</u>	Wayne's	<u>(38,090)</u>	0	Included in prior audit
		Total:	\$188,539		\$188,539		(\$188,539)	\$0	
		Total Water 2001:	\$822,149		\$843,772		(\$601,985)	\$241,787	
08/13/02	334	Replace Meters	\$50,000		\$50,000	Wayne's	(\$37,500)	\$12,500	Retire @ 75%
		Grand Total all years:	\$872,149		\$893,772		(\$639,485)	\$254,287	

WASTEWATER

DATE	ACCT. NO.	DESCRIPTION	PLANT ADDITIONS	COMM. ALL. %	AMOUNT PER BOOKS	VENDOR	AUDIT ADJ.	AMOUNT PER AUDIT	AUDITOR'S COMMENTS
08/13/01	360	Force Main	\$624	40.00%	\$1,040	C.A. Meyer		\$1,040	
08/13/01	360	Force Main	315	40.00%	525	C.A. Meyer		525	
08/13/01	360	Force Main	557	40.00%	928	C.A. Meyer		928	
08/13/01	360	Force Main	10,028	40.00%	16,713	C.A. Meyer		16,713	
10/31/01	360	Replace Lift Stat Pump	2,400		0	Wayne's	600	600	Retire @ 75%x \$2,400=\$1,800
		Total:	\$13,924		\$19,206		\$600	\$19,806	
05/13/01	361	Process Piping	10,000		10,000	C.A. Meyer	(10,000)	0	Included in prior audit
05/13/01	361	Lift Station Installation	13,000		13,000	Wayne's	(13,000)	0	Included in prior audit
05/13/01	361	Reuse Connection	18,375		18,375	C.A. Meyer	(18,375)	0	Included in prior audit
05/13/01	361	Lift Station Installation	15,000		15,000	Wayne's	(15,000)	0	Included in prior audit
08/13/01	361	Sanitary Sewers	9,360	12.00%	10,636	C.A. Meyer		10,636	
08/13/01	361	Sanitary Sewers	424	12.00%	481	C.A. Meyer		481	
08/13/01	361	Sanitary Sewers	750	12.00%	852	C.A. Meyer		852	
08/13/01	361	Sanitary Sewers	780	12.00%	886	C.A. Meyer		886	
08/13/01	361	Sanitary Sewers	1,428	12.00%	1,623	C.A. Meyer		1,623	
08/13/01	361	Sanitary Sewers	56,375	12.00%	64,062	C.A. Meyer		64,062	
08/13/01	361	Sanitary Sewers	4,437	12.00%	5,042	C.A. Meyer		5,042	
08/13/01	361	Sanitary Sewers	17,509	12.00%	19,896	C.A. Meyer		19,896	
08/13/01	361	Sanitary Sewers	3,150	12.00%	3,580	C.A. Meyer		3,580	
08/13/01	361	Sanitary Sewers	2,491	12.00%	2,831	C.A. Meyer		2,831	
08/13/01	361	Sanitary Sewers	7,237	12.00%	8,224	C.A. Meyer		8,224	
08/13/01	361	Sanitary Sewers	235	12.00%	267	C.A. Meyer		267	
08/13/01	361	Lift Station Installation	2,950	40.00%	4,917	Wayne's		4,917	
08/13/01	361	Lift Station Installation	105,505		105,505	C.A. Meyer	(105,505)	0	Included in prior audit
08/13/01	361	Lift Station Installation	500	40.00%	833	Wayne's		833	
08/13/01	361	Lift Station Installation	700	40.00%	1,167	Wayne's		1,167	
08/13/01	361	Lift Station Installation	700	40.00%	1,167	Wayne's		1,167	
08/13/01	361	Sanitary Sewers	558	12.00%	635	C.A. Meyer		635	
08/13/01	361	Sanitary Sewers	110	12.00%	125	C.A. Meyer		125	
08/13/01	361	Lift Station Installation	222,289		222,289	C.A. Meyer	(222,289)	0	Included in prior audit
08/13/01	361	Lift Station Installation	450	40.00%	750	Wayne's		750	
08/13/01	361	Lift Station Installation	225	40.00%	375	Wayne's		375	
08/13/01	361	Sanitary Sewers	814	12.00%	925	C.A. Meyer		925	

DATE	ACCT NO.	DESCRIPTION	PLANT ADDITIONS	COMM. ALL. %	AMOUNT PER BOOKS	VENDOR	AUDIT ADJUSTMENT	AMOUNT PER AUDIT	AUDITOR'S COMMENTS
08/13/01	361	Sanitary Sewers	\$1,925	12.00%	\$2,188	C.A. Meyer		\$2,188	
08/13/01	361	Sanitary Sewers	1,653	12.00%	1,878	C.A. Meyer		1,878	
08/13/01	361	Sanitary Sewers	1,836	12.00%	2,086	C.A. Meyer		2,086	
08/13/01	361	Lift Station Installation	4,500	40.00%	7,500	Wayne's		7,500	
08/13/01	361	Lift Station Installation	3,500	40.00%	5,833	Wayne's		5,833	
08/13/01	361	Sanitary Sewers	477	12.00%	542	C.A. Meyer		542	
08/13/01	361	Sanitary Sewers	21,152	12.00%	24,036	C.A. Meyer		24,036	
08/13/01	361	Sanitary Sewers	1,271	12.00%	1,444	C.A. Meyer		1,444	
08/13/01	361	Sanitary Sewers	23,065	12.00%	26,210	C.A. Meyer		26,210	
08/13/01	361	Sanitary Sewers	590	12.00%	670	C.A. Meyer		670	
08/13/01	361	Lift Station Installation	<u>19,000</u>	40.00%	<u>31,667</u>	Wayne's		<u>31,667</u>	
		Total:	\$574,320		\$617,497		(\$384,169)	\$233,329	
08/13/01	363	Manholes	22,950	12.00%	26,080	C.A. Meyer		26,080	
08/13/01	363	Manholes	975	12.00%	1,108	C.A. Meyer		1,108	
08/13/01	363	Services to Customers	31,820	12.00%	36,159	C.A. Meyer		36,159	
08/13/01	363	Manholes	2,050	12.00%	2,330	C.A. Meyer		2,330	
08/13/01	363	Manholes	9,900	12.00%	11,250	C.A. Meyer		11,250	
08/13/01	363	Services to Customers	407	12.00%	463	C.A. Meyer		463	
08/13/01	363	Manholes	3,666	12.00%	4,166	C.A. Meyer		4,166	
08/13/01	363	Services to Customers	3,922	12.00%	4,457	C.A. Meyer		4,457	
08/13/01	363	Services to Customers	19,758	12.00%	22,452	C.A. Meyer		22,452	
08/13/01	363	Services to Customers	13,690	12.00%	15,557	C.A. Meyer		15,557	
08/13/01	363	Services to Customers	<u>407</u>	12.00%	<u>463</u>	C.A. Meyer		<u>463</u>	
		Total:	\$109,545		\$124,483			\$124,483	
05/13/01	364	Mag Meter	6,300		6,300	Wayne's	(6,300)	0	Included in prior audit
05/13/01	371	Pumps/Motors	32,000		32,000	Wayne's	(32,000)	0	Included in prior audit
05/13/01	380	Filtering Devices	30,000		30,000	Wayne's	(30,000)	0	Included in prior audit
05/13/01	380	Effluent Storage	20,000		20,000	Wayne's	(20,000)	0	Included in prior audit
05/13/01	380	Concrete Tanks	14,600		14,600	Wayne's	(14,600)	0	Included in prior audit
05/13/01	380	Clarifier	45,000		45,000	Wayne's	(45,000)	0	Included in prior audit
05/13/01	380	Pond Pumping Station	10,000		10,000	Wayne's	(10,000)	0	Included in prior audit
10/13/01	380	Replace 2 Surge Tanks Pumps	4,100		0	Wayne's	1,025	1,025	Retire @ 75%x\$4,100=\$3,075
12/01/01	380	Aeration in decorative pond	<u>10,000</u>		<u>0</u>	Wayne's	<u>10,000</u>	<u>10,000</u>	Per invoice
		Total:	\$133,700		\$119,600		(\$108,575)	\$11,025	

DATE	ACCT. NO.	DESCRIPTION	PLANT ADDITIONS	COMM. ALL. %	AMOUNT PER BOOKS	VENDOR	AUDIT ADJUSTMENT	AMOUNT PER AUDIT	AUDITOR'S COMMENTS
05/13/01	389	Misc. Metals	\$10,000		\$10,000	Wayne's	(\$10,000)	\$0	Included in prior audit
05/13/01	389	Pond Liner	16,150		16,150	Wayne's	(16,150)	0	Included in prior audit
05/13/01	389	Electrical Modules	8,000		8,000	Wayne's	(8,000)	0	Included in prior audit
05/13/01	389	Mobilization	24,400		24,400	Wayne's	(24,400)	0	Included in prior audit
05/13/01	389	Controls	15,000		15,000	Wayne's	(15,000)	0	Included in prior audit
05/13/01	389	Electrical Panels	10,000		10,000	Wayne's	(10,000)	0	Included in prior audit
05/13/01	389	Electrical Items	15,300		15,300	Wayne's	(15,300)	0	Included in prior audit
08/13/01	389	Misc. Plant Items	368	40.00%	613	C.A. Meyer		613	
08/13/01	389	Misc. Plant Items	37,947		37,947	Wayne's	(37,947)	0	No support
08/13/01	389	Misc. Plant Items	600	40.00%	1,000	C.A. Meyer		1,000	
08/13/01	389	Misc. Plant Items	2,228	40.00%	3,713	C.A. Meyer		3,713	
08/13/01	389	Misc. Plant Items	500	40.00%	833	C.A. Meyer		833	
		Total:	\$140,493		\$142,956		(\$136,797)	\$6,159	
		Total Wastewater 2001:	\$1,010,281		\$1,062,042		(\$667,241)	\$394,801	
01/17/02	360	Replaced Lift Station Pump	\$1,200		0	Wayne's	300	300	Retire @ 75%x\$1,200 = \$900
01/17/02	360	Repiped Lift Station	1,300		0	Wayne's	325	325	Retire @ 75%\$1,300x\$975
		Total:	\$2,500		\$0		\$625	\$625	
07/15/02	361	Unknown Plant Additions	24,376		24,376	Unknown	(24,376)	0	No Support
01/17/02	380	Perc Pond	2,800		0	Wayne's	2,800	2,800	Per invoice
07/23/02	380	Replace Clarifier	50,180		50,180	Wayne's	(37,635)	12,545	Retire @ 75%
		Total:	\$52,980		\$50,180		(\$34,835)	\$15,345	
		Total Wastewater 2002:	\$79,856		\$74,556		(\$58,586)	\$15,970	

DATE	ACCT. NO.	DESCRIPTION	PLANT ADDITIONS	COMM. ALL. %	AMOUNT PER BOOKS	VENDOR	AUDIT ADJ.	AMOUNT PER AUDIT	AUDITOR'S COMMENTS
01/19/03	360	Replace Lift Station Pump	\$1,400		\$0	Wayne's	\$350	\$350	Retire @ 75%x\$1,400=\$ 1,050
08/14/03	360	Lift Station Pump	4,200		0	Wayne's	1,050	1,050	Retire @ 75%x\$4,200=\$ 3,150
09/03/03	360	Lift Station Pump	<u>12,450</u>		0	Wayne's	<u>3,113</u>	<u>3,113</u>	Retire @ 75%x\$12,450=\$9,338
		Total:	\$18,050		\$0		\$4,513	\$4,513	
09/03/03	380	Treatment Plant Blowers	8,000		0	Wayne's	2,000	2,000	Retire @ 75% x \$8,000 = \$ 6,000
07/10/03	381	Install Effluent Irr. Sys	14,300		0	Wayne's	14,300	14,300	Per Invoice
07/15/03	389	Unknown Plant Additions			33,240		(33,240)	0	No Support
		Total Wastewater 2003:	\$40,350		\$33,240		(\$12,428)	\$20,813	
		Grand Total all years:	\$1,130,487		\$1,169,838		(\$738,254)	\$431,584	

Exception No. 3

Subject: Accumulated Depreciation

Statement of Fact: Per the utility's 2003 Annual Report, the amount of accumulated depreciation for water is \$379,730, and wastewater is \$767,930 as of December 31, 2003.

Rate base was established for the utility as of July 31, 2001, in Commission Order No. PSC-02-1111-PAA-WS, issued August 13, 2002.

The Commission established water and wastewater depreciation rates in rule 25-30.140.

Recommendation: Per Exception No. 2, the utility misclassified plant, did not provide supporting documentation for some of its plant additions, did not reconcile to the above-mentioned Commission Order, and did not retire some of its plant. The transfer date of the utility was October 16, 2003, but the utility does not close its books monthly. The audit staff adjustments are as of October 16, 2003. The utility's books are as of December 31, 2003.

The audit staff determined water accumulated depreciation to be \$153,639 and wastewater to be \$779,292 as of October 16, 2003. The Commission should reduce water accumulated depreciation by \$226,091 (\$153,639 - 379,730) and increase the wastewater accumulated depreciation by \$11,362 (\$779,292 - 767,930). See Schedules A and B as follows for further details.

Schedule A - Exception No. 3

WATER

Water - Accumulated Depreciation (A/D) Adjustments as of October 16, 2003

Acct. No.	Account Name	Description	Balance Per Utility As of 12/31/03	Recommended Adjustment	Balance Per Audit As of 10/16/03
304	Struc & Improv.	Plant per Order was \$79,576 - fully depreciated. 2001 - Utility made \$95,807 in additions that was removed for nonsupport.	\$88,087	(\$8,511)	\$79,576
309	Supply Mains	2001 - Reclass a Flow Meter, \$7,410, from Acct. 334 in 2001, rate of 3.13%. Utility used 2.86%.	2,339	1,063	3,402
310	Power Gener.	Plant per Order, \$71,978, rate of 5.88%. Plant per utility, \$65,000, rate of 5.00%.	9,750	1,893	11,643
311	Pumping Equip.	Plant per Order, \$73,590, rate of 5.88%. Plant per utility, \$40,342, rate of 10.00%	31,903	(1,678)	30,225
330	Dist. Rev. & Standpipes	Plant per Order, \$256,905, rate of 3.03%, beginning A/D balance, (\$36,938). Plant per utility, \$318,910, rate of 5.00%, A/D balance @12/31/01, \$117,879.	149,771	(169,193)	(19,422)
331	T & D Lines	Plant per audit, \$240,912, rate of 2.63%, beginning A/D balance per Order, \$38,208. Plant per utility, \$131,793, rate of 3.125%, A/D balance @12/31/01, \$16,980.	25,218	26,711	51,929
333	Services	Plant per audit, \$69,160, rate of 2.86%, beginning A/D balance per Order, \$3,975. Plant per utility, \$53,860, rate of 2.50%, A/D balance @12/31/01, \$1,347.	4,041	4,059	8,100
334	Meters & Install.	Plant per audit, \$79,148, rate of 5.88%. Plant per utility, \$124,058, rate of 5.00%. Difference - in 2001, \$7,410, reclass to Acct. 309. In 2002, audit staff retired, \$37,500.	14,858	(41,014)	(26,156)
335	Hydrants	Plant per audit, \$50,108, rate of 2.50%. Plant per utility, \$34,598, rate of 3.125%	5,734	2,180	7,914
336	Backflow Prevention	Plant per audit, \$16,905, rate of 10%, reclass from Acct 339. Plant per utility, \$0.	0	3,451	3,451
339	Other Plant & Misc Equip.	Plant per audit, \$0. Plant per utility, \$205,444, rate of 7.50%. Difference - amounts were classified to others account in prior Order and this audit.	44,458	(44,458)	0
348	Other Tangible Plant	Plant per Order was \$2,977 - fully depreciated. - Plant per utility, \$2,977, rate of 10% was used.	3,573	(596)	2,977
Total:			\$379,730	(\$226,091)	\$153,639

NOTE:

The per audit amount includes the use of 1/2 year convention. The utility does not include 1/2 year convention. Commission's Rule rate used by audit staff on all of the above calculations. See Schedule C - Exception No.2 for further details. Some differences are due to rounding.

Wastewater - Accumulated Depreciation (A/D) Adjustments as of October 16, 2003

Acct No.	Account Name	Description	Balance Per Utility As of 12/31/03	Rec. Adjust	Balance Per Audit As of 10/16/03
354	Struc & Improv.	Plant per audit, \$114,362, rate of 3.70%, fully depreciated. Plant per utility, \$524,362, rate of 2.5%.	\$143,179	(\$28,817)	\$114,362
360	Collection Sewers - Force	Plant per audit, \$37,283, retirements, \$17,213, rate of 3.70%. Plant per utility, \$26,065, rate of 7.5%.	11,111	(22,311)	(11,200)
361	Collection Sewers - Gravity	Plant per audit, \$523,814, rate of 2.5%, beginning A/D balance, \$128,819. Plant per utility, \$432,757, rate of 2.5%, A/D balance @12/31/01, \$137,837.	159,170	(2,102)	157,068
362	Special Collec. Struct.	Plant per audit, \$0, reclassified to Acct 363. Plant per utility, \$44,933, rate of 2.50%	3,369	(3,369)	0
363	Services	Plant per audit, \$144,633, rate of 2.86%, beginning A/D balance, \$5,235. Plant per utility, \$79,550, rate of 2.63%, A/D balance @12/31/01, \$2,093.	6,277	7,515	13,792
364	Flow Measuring Devices	Plant per audit, \$8,881, rate of 20%, beginning A/D balance, \$1,140. Plant per utility, \$6,575, rate of 10%, A/D balance @12/31/01, \$910.	2,226	2,910	5,136
365	Flow Measuring Installation	Plant per Order/audit, \$0	95	(95)	0
366	Reuse Services	Plant per audit, \$19,928, rate of 2.86%, beginning A/D balance, \$285. Plant per utility, \$0.	0	1,566	1,566
370	Receiving Wells	Plant per audit, \$74,358, rate of 4%, beginning A/D balance, \$20,860. Plant per utility, \$4,000, rate of 2.5%, A/D balance @12/31/01, \$1,470.	1,670	25,882	27,552
371	Pumping Equipment	Plant per audit, \$87,086, rate of 5.55%, beginning A/D balance, \$2,417. Plant per utility, \$32,000, rate of 5.56%, A/D balance @12/31/01, \$1,778.	5,336	7,967	13,303
374	Reuse Dist Reser.	Plant per audit, \$137,119, rate of 3.03%, beginning A/D balance, \$2,078. Plant per utility, \$0	0	11,427	11,427
375	Reuse Trans. & Dist. System	Plant per audit, \$222,289, rate of 2.63%, beginning A/D balance, \$2,925. Plant per utility, \$0	0	16,087	16,087

Wastewater - Accumulated Depreciation (A/D) Adjustments as of October 16, 2003

Acct No.	Account Name	Description	Bal. Per Utility as of 12/31/03	Rec. Adjust	Bal. Per Audit as of 10/16/03
380	Treat & Disposal Equip.	Plant per audit, \$710,840, rate of 6.67%, beginning A/D balance, \$269,415. Plant per utility, \$650,837, rate of 3.13%, A/D balance @12/31/01, \$198,142.	\$238,099	\$89,897	\$327,996
381	Plant Sewers	Plant per audit, \$41,413, rate of 3.13%, beginning A/D balance, \$424. Plant per utility, \$0.	0	2,517	2,517
382	Outfall Sewers Lines	Plant per audit, \$197,653, rate of 3.33%, beginning A/D balance, \$58,217. Plant per utility, \$299,673, rate of 2.5%, A/D balance @12/31/01, \$98,540.	113,524	(40,483)	73,041
389	Other Plant & Misc. Equip.	Plant per audit, \$12,210, rate of 6.67%, beginning A/D balance, \$3,800. Plant per utility, \$177,544, rate of 7.50%, A/D balance @12/31/01, \$25,342.	50,456	(44,910)	5,546
394	Lab. Equipment	Plant per audit, \$3,414, rate of 8.33%, beginning A/D balance, \$142. Plant per utility, \$0.	0	782	782
395	Power Operated Equipment	Plant per audit, \$22,733, rate of 10%, beginning A/D balance, \$12,225. Plant per utility, \$22,733, rate of 10%, A/D balance @12/31/01, \$25,299.	29,845	(12,505)	17,340
398	Other Tangible Plant	Plant per audit, \$2,977, rate of 10%, beginning A/D balance, \$2,977. Plant per utility, \$2,977, rate of 10%, A/D balance @12/31/01, \$2,977.	3,573	(596)	2,977
Total:			\$767,930	\$11,362	\$779,292

Notes:

The per audit amount includes the use of ½ year convention. The utility does not include ½ year convention.

Commission's rule rate used by audit staff on all of the above calculations See Schedule D - Exception No. 2 for further details.

Some differences are due to rounding.

Exception No. 4

Subject: CIAC and Accumulated Amortization

Statement of Fact: Per the utility's 2003 Annual Report, the amount of CIAC for water is \$109,085 and wastewater is \$450,156 as of December 31, 2003.

Per the utility's 2003 Annual Report, the amount of CIAC accumulated amortization for water is \$58,614, and wastewater is \$145,243 as of December 31, 2003.

Rate base was established for the utility as of July 31, 2001, in Commission Order No. PSC-02-1111-PAA-WS, issued August 13, 2002.

Recommendation: The audit staff determined water CIAC to be \$114,919 and wastewater to be \$465,735 as of October 16, 2003. The Commission should increase water CIAC by \$5,834 (\$109,085 - \$114,919) and increase the wastewater CIAC by \$15,579 (\$450,156 - \$465,735). See attached Schedules A through D as follows for further details.

The audit staff determined water accumulated amortization to be \$59,555 and wastewater to be \$179,472 as of October 16, 2003. The Commission should increase water accumulated amortization by \$941 (\$59,555 - \$58,614) and increase the wastewater accumulated amortization by \$34,229 (\$179,472 - \$145,243). The audit staff used a composite rate computed each year for amortization purposes. See Schedules E and F as follows for further details.

The transfer date of the utility was October 16, 2003, but it does not close its books monthly. The audit staff adjustments are as of October 16, 2003. The utility's books are as of December 31, 2003.

Schedule A - Exception No. 4

Water CIAC

Date	Balance Per Utility	Recommended Adjustment	Balance Per Order	Comments
Balance as of 07/31/01			\$92,909	Balance per Order. Utility does not close its book monthly.
	Per Utility		Per Audit	
2001 Additions	\$3,230	(\$2,720)	\$510	See Schedule C.
Balance as of 12/31/01	\$92,739	\$680	\$93,419	
2002 Additions	\$6,650	(\$2,050)	\$4,600	See Schedule C.
2003 Additions	\$9,696	\$7,204	\$16,900	See Schedule C.
2003 Balance Per audit as of 10/16/03. Per utility as of 12/31/03	\$109,085	\$5,834	\$114,919	

Schedule B - Exception No. 4

Wastewater CIAC

Date	Balance Per Utility	Recommended Adjustment	Balance Per Order	Comments
Balance As of 07/31/01			\$426,748	Balance per Order. Utility does not close its book monthly.
	Per Utility		Per Audit	
2001 Additions	\$34,867	(\$29,362)	\$5,505	See Schedule D.
Balance as of 12/31/01	\$424,913	\$7,340	\$432,253	
2002 Additions	\$21,779	\$3,050	\$24,829	See Schedule D.
2003 Additions	\$3,464	\$5,189	\$8,653	See Schedule D.
2003 Balance Per audit as of 10/16/03. Per Utility as of 12/31/03	\$450,156	\$15,579	\$465,735	Utility does not close its books monthly.

Schedule C for Exception No. 4
 Water - CIAC Additions

Date	Amount Per Sales Agreements	Comments
06/30/01	\$170	Not included in prior audit
10/17/01	170	
10/29/01	170	
Total - 2001	510	
01/15/02	170	
02/16/02	170	
03/07/02	170	
05/22/02	170	
07/07/02	170	
07/10/02	170	
08/22/02	170	
08/27/02	170	
10/03/02	170	
10/05/02	170	
10/08/02	2,390	
10/15/02	170	
10/28/02	170	
11/05/02	170	
Total - 2002	\$4,600	
Unknown	\$2,390	
03/16/03	2,390	
03/22/03	2,390	
03/31/03	2,390	
04/23/03	2,390	
04/29/03	2,390	
06/25/03	2,390	
10/03/03	170	
Total - 2003	\$16,900	
Grand Total:	\$22,010	

Schedule D - Exception No. 4

Wastewater - CIAC Additions

	Date	Amount Per Sales Agreements	Comments
	06/30/01	\$1,835	Not included in prior audit
	10/17/01	1,835	
	10/29/01	1,835	
	Total - 2001	5,505	
	01/15/02	1,835	
	02/16/02	1,835	
	03/07/02	1,835	
	05/22/02	1,835	
	07/07/02	1,835	
	07/10/02	1,835	
	08/22/02	1,835	
	08/27/02	1,835	
	10/03/02	1,835	
	10/05/02	1,835	
	10/08/02	974	
	10/15/02	1,835	
	10/28/02	1,835	
	11/05/02	1,835	
	Total - 2002	\$24,829	
	Unknown	\$974	
	03/16/03	974	
	03/22/03	974	
	03/31/03	974	
	04/23/03	974	
	04/29/03	974	
	06/25/03	974	
	10/03/03	1,835	
	Total - 2003	\$8,653	
	Grand Total:	\$38,987	

Schedule E - Exception No. 4

Water CIAC Accumulated Amortization

Date	Balance Per Utility	Recommended Adjustment	Balance Per Order	Comments
Balance as of 07/31/01			\$51,829	Balance per Order. Utility does not close its book monthly.
	Per Utility		Per Audit	
2001 Additions	\$2,898	(\$1,749)	\$1,149	Composite rate of 1.23%
Balance as of 12/31/01	\$52,344	\$634	\$52,978	
2002 Additions	\$3,007	\$306	\$3,313	Composite rate of 3.38%
2003 Additions	\$3,263	\$1	\$3,264	Composite rate of 2.84%
2003 Balance Per audit as of 10/16/03. Per utility as of 12/31/03	\$58,614	\$941	\$59,555	

It is unknown what amortization rate is used by the utility. The audit staff computed a composite rate each year.

Schedule F - Exception No. 4

Wastewater CIAC Accumulated Amortization

Date	Balance Per Utility	Recommended Adjustment	Balance Per Order	Comments
Balance As of 07/31/01			\$137,223	Balance per Order. Utility does not close its book monthly.
	Per Utility		Per Audit	
2001 Additions	\$10,623	(\$3,318)	\$7,305	Composite rate of 1.69%
Balance as of 12/31/01	\$123,137	\$21,391	\$144,528	
2002 Additions	\$10,895	\$8,074	\$18,969	Composite rate of 4.15%
2003 Additions	\$11,211	\$4,764	\$15,975	Composite rate of 3.43%
2003 Balance Per audit as of 10/16/03. Per Utility as of 12/31/03	\$145,243	\$34,229	\$179,472	Utility does not close its books monthly.

It is unknown what amortization rate is used by the utility. The audit staff computed a composite rate each year.

Exception No. 5

Subject: Customer Billing

Statement of Fact: The utility did not charge the clubhouse and office for water and wastewater service prior to March 2004.

Per Florida Statutes 367.081(1), “. . . a utility may only charge rates and charges that have been approved by the Commission.”

Per Commission Order No. 11241-A, issued November 15, 1982, “We find the practice of providing free water to be discriminatory, and we hereby require the utility to perform meter readings and charge these customers, consistent with this opinion, for all water consumption.”

Recommendation: Water consumption, revenues and regulatory assessment fees (RAFs) for the clubhouse and office for 2002 and 2003 if charges had been made are reflected on Schedules A and B as follows.

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

Schedule A - Exception 5

Date	Reading	Water		Base Facility Charge	Wastewater		Total Water & Wastewater
		Gallons Used	Amount		Amount	Base Facility Charge	
CLUBHOUSE 2" Meter							
01/23/2002	1,431,000						
02/25/2002	1,475,300	44,300	\$23.92				\$23.92
03/25/2002	1,543,900	68,600	37.04				37.04
04/25/2002	1,605,600	61,700	33.32				33.32
05/23/2002	1,726,000	120,400	65.02				65.02
06/24/2002	1,873,000	147,000	79.38				79.38
07/25/2002	1,912,400	39,400	21.28				21.28
08/27/2002	1,952,100	39,700	21.44				21.44
09/30/2002	1,991,400	39,300	21.22				21.22
10/30/2002	2,085,400	94,000	216.20	76.56	429.58	85.95	808.29
11/27/2002	2,062,900	(22,500)	(51.75)	76.56	(102.83)	85.95	7.94
12/30/2002	2,088,500	25,600	58.88	76.56	116.99	85.95	338.38
01/30/2003	2,125,300	36,800	84.64	76.56	168.18	85.95	415.33
						Total:	\$1,872.55
						RAF Percentage	4.50%
						RAF Charge 2002	\$84.26
02/27/2003	2,200,400	75,100	\$172.73	\$76.56	\$343.21	\$85.95	\$678.45
03/28/2003	2,280,000	79,600	183.08	76.56	363.77	85.95	709.36
04/03/2003	2,369,700	89,700	206.31	76.56	409.93	85.95	778.75
05/30/2003	2,482,600	112,900	259.67	76.56	515.95	85.95	938.13
06/30/2003	2,550,000	67,400	155.02	76.56	308.02	85.95	625.55
07/08/2003	2,621,600	71,600	164.68	76.56	327.21	85.95	654.40
08/28/2003	2,682,600	61,000	140.30	76.56	278.77	85.95	581.58
09/29/2003	2,754,600	72,000	165.60	76.56	329.04	85.95	657.15
10/28/2003	2,811,600	57,000	131.10	76.56	260.49	85.95	554.10
11/25/2003	2,875,100	63,500	146.05	76.56	290.20	85.95	598.76
12/31/2003	2,931,900	56,800	130.64	76.56	259.58	85.95	552.73
01/27/2004	2,975,500	43,600	100.28	76.56	199.25	85.95	462.04
						Total:	\$7,790.99
						RAF Percentage	4.50%
						RAF Charge 2003	\$350.59

Schedule B - Exception 5

Date	Reading	Water		Base Facility Charge	Wastewater		Total Water & Wastewater
		Gallons Used	Amount		Amount	Base Facility Charge	
OFFICE 1" Meter							
01/23/2002	232,430						
02/25/2002	234,450	2,020	\$1.09				\$1.09
03/25/2002	236,710	2,260	1.22				1.22
04/25/2002	238,980	2,270	1.23				1.23
05/23/2002	240,830	1,850	1.00				1.00
06/24/2002	242,880	2,050	1.11				1.11
07/25/2002	245,160	2,280	1.23				1.23
08/27/2002	247,370	2,210	1.19				1.19
09/30/2002	249,710	2,340	1.26				1.26
10/30/2002	251,470	1,760	4.05	23.93	8.04	26.86	62.88
11/27/2002	253,210	1,740	4.00	23.93	7.95	26.86	62.74
12/30/2002	254,620	1,410	3.24	23.93	6.44	26.86	60.48
01/30/2003	256,550	1,930	4.44	23.93	8.82	26.86	64.05
Total:							\$259.48
RAF Percentage							4.50%
RAF Charge 2002							\$11.68
02/27/2003	258,420	1,870	\$4.30	\$23.93	\$8.55	\$26.86	\$63.64
03/28/2003	260,450	2,030	4.67	23.93	9.28	26.86	64.74
04/03/2003	262,450	2,000	4.60	23.93	9.14	26.86	64.53
05/30/2003	264,480	2,030	4.67	23.93	9.28	26.86	64.74
06/30/2003	265,980	1,500	3.45	23.93	6.86	26.86	61.10
07/08/2003	267,930	1,950	4.49	23.93	8.91	26.86	64.19
08/28/2003	275,310	7,380	16.97	23.93	33.73	26.86	101.49
09/29/2003	277,090	1,780	4.09	23.93	8.13	26.86	63.02
10/28/2003	279,410	2,320	5.34	23.93	10.60	26.86	66.73
11/25/2003	281,480	2,070	4.76	23.93	9.46	26.86	65.01
12/31/2003	283,600	2,120	4.88	23.93	9.69	26.86	65.35
01/27/2004	285,540	1,940	4.46	23.93	8.87	26.86	64.12
Total:							\$808.64
RAF Percentage							4.50%
RAF Charge 2003							\$36.39
Grand Total - 2002 to 2003 - Office and Clubhouse RAFs							\$482.92

EXHIBIT I

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

DESCRIPTION	PER UTILITY AS OF 12/31/03	AUDIT EXCEPTION	REFER TO	PER AUDIT AS OF 10/16/03
UTILITY PLANT-IN-SERVICE	\$1,179,637	(\$189,854)	E2	\$989,783
LAND	\$2,433	\$0		\$2,433
ACCUMULATED DEPRECIATION	(379,730)	226,091	E3	(153,639)
CONTRIBUTIONS-IN-AID-OF- CONSTRUCTION (CIAC)	(109,085)	(5,834)	E4	(114,919)
ACCUMULATED AMORTIZATION OF CIAC	58,614	941	E4	59,555
TOTAL	\$751,869	\$31,344		\$783,213

EXHIBIT II**CWS COMMUNITIES LP
D/B/A PALM VALLEY
WASTEWATER RATE BASE
DOCKET NO. 030998-WS
AS OF OCTOBER 16, 2003**

DESCRIPTION	PER UTILITY AS OF 12/31/03	AUDIT EXCEPTION	REFER TO	PER AUDIT AS OF 10/16/03
UTILITY PLANT-IN-SERVICE	\$2,304,081	\$56,912	E2	\$2,360,993
LAND	96,409	0		96,409
ACCUMULATED DEPRECIATION	(767,930)	(11,362)	E3	(779,292)
CONTRIBUTIONS-IN-AID-OF- CONSTRUCTION (CIAC)	(450,156)	(15,579)	E4	(465,735)
ACCUMULATED AMORTIZATION OF CIAC	145,243	34,229	E4	179,472
TOTAL	\$1,327,647	\$64,200		\$1,391,847