



ORIGINAL

# Public Service Commission

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

**DATE:** February 15, 2005

**TO:** Tracey Biggins, Division of Economic Regulation

**FROM:** Denise N. Vandiver, Chief, Bureau of Auditing  
Division of Regulatory Compliance and Consumer Assistance

**RE:** **Docket No.** 041371-WU ; **Company Name:** The Colinas Group, Inc. receivers for Lazy S Utility Company ; **Audit Purpose:** Staff Assisted Rate Case ; **Audit Control No.** 05-026-3-1

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

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- NRMS \_\_\_\_\_
- RCA \_\_\_\_\_
- SCR \_\_\_\_\_
- SEC   1
- OTH \_\_\_\_\_

Mr. Charles Freed, President  
The Colinas Group  
2031 East Edgewood Drive, Suite 5  
Lakeland, FL 33803-3601

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**FLORIDA PUBLIC SERVICE COMMISSION**

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

*TAMPA DISTRICT OFFICE*

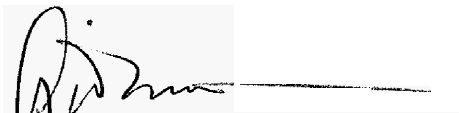
**THE COLINAS GROUP, INC.  
RECEIVERS FOR  
LAZY S UTILITY COMPANY**

**STAFF ASSISTED RATE CASE**

**HISTORICAL YEAR ENDED DECEMBER 31, 2004**

**DOCKET NO. 041371-WU**

**AUDIT CONTROL NO. 05-026-3-1**

  
*Simon Ojada, Audit Manager*

  
*Joseph W Rohrbacher, Regulatory Analyst Supervisor*

## TABLE OF CONTENTS

<b>I.</b>	<b>AUDITOR'S REPORT</b>	<b>PAGE</b>
	PURPOSE.....	1
	DISCLAIM PUBLIC USE .....	1
	SUMMARY OF SIGNIFICANT PROCEDURES.....	2
<b>II.</b>	<b>EXCEPTIONS</b>	
	1. NARUC CHART OF ACCOUNTS .....	3
	2. CUSTOMER DEPOSITS .....	4
<b>III.</b>	<b>DISCLOSURES</b>	
	1. PLANT-IN-SERVICE .....	5
	2. REVENUES.....	6
	3. OPERATION AND MAINTENANCE EXPENSE. ....	7
	4. TAXES OTHER .....	8
	5. CAPITAL IMPROVEMENT .....	9
<b>IV.</b>	<b>EXHIBITS</b>	
	WATER RATE BASE.....	10
	WATER NET OPERATING INCOME .....	11
	CAPITAL IMPROVEMENT .....	12

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

**FEBRUARY 4, 2004**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to prepare the accompanying schedules of Rate Base and Net Operating Income for the historical 12-month period ended December 31, 2004, for Lazy S Utility Company. These schedules were prepared by the auditor as part of the utility's petition for a Staff Assisted Rate Case in Docket No. 041371-WU. There is no confidential information associated with this audit.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this document must 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 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:

**Compiled** - The exhibit amounts were reconciled with the company books, and accounts were scanned for error or inconsistency.

**Reviewed** - The exhibit amounts were reconciled with the company books and records, and selective analytical review procedures were applied.

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

**RATE BASE:** Reviewed Utility Plant in Service (UPIS) and Contributions In Aid of Construction (CIAC) to determine any additions since the receiver began operations. Calculated working capital using one-eighth of operation and maintenance expenses.

**NET OPERATING INCOME:** Compiled utility revenue and operation and maintenance accounts for the 12 month period ended December 31, 2004. Reviewed operation and maintenance expenses and examined invoices or other supporting documentation. Verified taxes other than income.

**CAPITAL STRUCTURE:** Unable to compile capital structure components for the 12 month period ended December 31, 2004 due to the fact that the utility did not maintain proper books and records.

## **EXCEPTIONS**

### **Exception No. 1**

#### **Subject: NARUC Chart of Accounts**

**Statement of Fact:** Florida Administrative Code Chapter 25-30.115 states that “water and wastewater utilities shall, effective January 1, 1998, maintain their accounts and records in conformity with the 1996 NARUC Uniform Systems of Accounts . . . .”

The Uniform System of Accounts, Accounting Instruction 2, requires the books of accounts of all utilities be kept by the double entry method, on an accrual basis. It further states that “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.”

The utility does not utilize any accounting system prescribed by NARUC and maintains its records on a cash basis. The utility books consist of two printed computer spread sheets with blank columns and rows where information is manually entered.

The utility does not have any records supporting original cost for plant-in-service.

**Recommendation:** The utility should be required to maintain its records in conformity with the NARUC Uniform Systems of Account as prescribed by Rule 25-30.115, F.A.C., regarding the record keeping of water and wastewater utilities.

**Exception No. 2**

**Subject: Customer Deposits**

**Statement of Fact:** The utility collects a \$35.50 deposit from its customers and does not pay interest on the customer deposits.

Florida Administrative Code Chapter 25-30.311(4) states, “(a) Each utility which requires deposits to be made by its customers shall pay a minimum interest on such deposits of 6 percent per annum . . . (b) The deposit interest shall be simple interest in all cases and settlement shall be made annually, either in cash or by credit on the current bill. This does not prohibit any public utility paying a higher rate of interest than required by this rule.”

**Recommendation:** The utility should be required to pay 6 percent annual interest on customer deposits.

**Disclosure No. 1**

**Subject: Plant-in-Service**

**Statement of Fact:** On February 7, 2003, the Circuit Court of the Tenth Judicial Circuit of Polk County issued an Order in Case No. 53-2002-CA-004961, declaring Lazy S utility abandoned and appointing Colinas Group, Inc. receiver of the system.

Colinas Group, Inc (CGI), as receiver of Lazy S Utility, did not have Plant In Service accounts. The utility is interconnected with the City of Lakeland which supplies bulk water to the system through a master meter. The utility's facilities consist of a distribution system and meters which are in poor condition. The receiver does not have any records to indicate the original cost of the distribution system for Lazy S utility. CGI's investment to date is limited to the amount spent to repair leaks that have occurred in the distribution system. The utility has not recorded any additions to Plant in its books and record.

**Recommendation:** Auditor defers to the analyst and the engineer as to whether an original cost study should be conducted since the original cost may be treated as Contribution In Aid of Construction. Moreover, the original cost of Plant In Service may have been fully depreciated since the utility was established in approximately 1960.



## **Disclosure No. 2**

### **Subject: Revenues**

**Statement of Fact:** The utility recorded total revenues of \$40,930 in its books for the 12 month period ended December 31, 2004. The utility charges its customers a flat rate of \$35.50 per month. The auditor calculated revenues, based on the number of customers per month, was \$40,772 for a difference of \$158.

**Recommendation:** Accept the company's recorded revenues of \$40,930 for rate making purposes. The difference is immaterial.

**Disclosure No. 3**

**Subject: Operation and Maintenance Expense**

**Statement of Fact:** The utility recorded a total of \$41,142 for water O&M expense for the 12 month period ended December 31, 2004. The utility included Regulatory Assessment Fees, Bad Debt Expense – bad checks that have been replaced, Misc. Expenses – overdraft charges and adjustments to reconcile the check book to the bank balances, as O & M expenses.

Also, the utility did not record the total amount for purchased water for the 12 month period ending December 31, 2004. The utility only included paid water bills totaling \$32,861 and not the total bills for the period. The total purchased water for the period was \$43,256 for a difference of \$10,395.

**Recommendation:** We recommend the total O&M expenses of \$41,142 be increased by \$10,395 (unpaid purchased water) and reduced by the following: Regulatory Assessment Fees \$1,314, Bad Debt Expense \$162, and Miscellaneous Expense \$153, for a balance of \$49,908.

The following adjustments should be made to O&M Expense account:

Total O&M Expense per Company	\$41,142.00
Add: Unpaid Purchased Water	10,395.00
Less: Regulatory Assessment Fees	( 1,314.00)
Bad Debt Expense	( 162.00)
Miscellaneous Expense	( 153.00)
Total O&M Expense per audit	<u>\$49,908.00</u>

**Disclosure No. 4**

**Subject: Taxes Other Than Income**

**Statement of Fact:** The utility recorded \$1,314 as Regulatory Assessment Fees for the 12 month period ending December 31, 2004.

**Recommendation:** Based on the total revenue of \$40,930, the auditor increased the Regulatory assessment fee by \$528 to a total of \$1,842 ( $\$40,930 \times .045$ ) to reflect the RAF for the test period.

**Disclosure No. 5**

**Subject: Proposed Capital Improvements**

**Statement of Fact:** The utility provided an estimated cost to replace all the water lines within the Lazy S Utility Company service area totaling \$422,100 (see Exhibit III).

Also, the Colinas Group, Inc. is proposing a management fee of \$500 a month for its services. According to Mr. Charles Freed, he spends approximately 10 hours a month managing the Lazy S Utility company.

STAFF ASSISTED RATE BASE  
 COMPANY: LAZY S UTILITY COMPANY  
 DOCKET NO. 041371-WU  
 RATE BASE - WATER  
 TEST YEAR ENDED 12/31/04

EXHIBIT I

(a) DESCRIPTION	(b) PER BOOKS 12/31/2003	(c) PER BOOKS 12/31/2004	(d) AUDIT ADJUST.	(e) REFER TO DISCL	(f) PER AUDIT 12/31/2004
UTILITY PLANT IN SERVICE	0	0	0		0
LAND	0	0	0		0
PLANT HELD FOR FUTURE USE	0	0	0		0
CIAC	0	0	0		0
AMORTIZATION OF CIAC	0	0	0		0
ACCUMULATED DEPRECIATION	0	0	0		0
WORKING CAPITAL	0	0	6,238		6,238
TOTAL	0	0	6,238		6,238

1. Working Capital Formula:  $1/8$  Operating and Maintenance Expense.

2. All amounts rounded to the nearest whole dollar.

STAFF ASSISTED RATE CASE  
COMPANY: LAZY S UTILITY COMPANY  
DOCKET NO. 041371-WU  
NET OPERATING INCOME-WATER  
12 MONTHS ENDED DEC 31, 2004

EXHIBIT II

NET OPERATING INCOME - WATER	(1)	(2)	(3)
DESCRIPTION	TEST YEAR PER BOOKS (ACTUAL)	AUDIT ADJUST	AUDITED BALANCE
OPERATING REVENUES	40,930	0	40,930
<b>OPERATING EXPENSES</b>			
OPERATION AND MAINTENANCE EXPENSE	41,142	(315) D3 (1,314) 10,395	49,908
DEPRECIATION EXPENSE	0	0	0
AMORTIZATION EXPENSE	0	0	0
TAXES OTHER THAN INCOME	1,314	528 D4	1,842
INCOME TAXES	0	0	0
TOTAL OPERATING EXPENSES	42,456	9,294	51,750
NET OPERATING INCOME/LOSS	(1,526)	(9,294)	(10,820)

**CAPITAL IMPROVEMENT PROGRAM  
FOR  
LAZY S UTILITY COMPANY**

The project is to replace all the water lines within the Lazy S Utility Company service area. The work will be completed in two phases.

PRELIMINARY ESTIMATE

PHASE I: From Ariana south to Faye Street and from Westgate to Wabash.

6,600' of 6" pvc C-900 water line	@ \$20.00	\$132,000
12 fire hydrants	@ 1,500	18,000
Relocate meter and install 6" meter	l.s.	25,000
15 - 6" valves	@ 800	12,000
60 meters	@ 150	9,000
Directional bores 170'	@ 90	15,300
Surveying	l.s.	20,000
Engineering and permitting	l.s.	<u>25,000</u>
Total		\$256,300

PHASE II: From Faye Street south and Westgate to Wabash.

4,900' of 6" pvc C-900 water line	@ \$20.00	\$96,000
4 fire hydrants	@ 1,500	6,000
6 - 6" valves	@ 800	4,800
40 meters	@ 150	4,000
Surveying	l.s.	40,000
Engineering and permitting	l.s.	<u>15,000</u>
Total		\$165,800

Total Phase I and Phase II                      \$422,100