

M E M O R A N D U M

April 3, 1996

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *W*

RE: DOCKET NO. 951591-SU -- COLONY PARK UTILITIES, INC.  
STAFF-ASSISTED RATE CASE AUDIT REPORT  
AUDIT CONTROL NO. 96-024-3-1

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The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on one diskette. The diskette may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this report to:

Colony Park Utilities, Inc.  
Lenore Warren  
32 Mangrove Drive  
Merritt Island, FL 32953-6804

DNV/sp

Attachment

cc: Chairman Clark  
Commissioner Deason  
Commissioner Johnson  
Commissioner Kiesling  
Commissioner Garcia  
Mary Andrews Bane, Deputy Executive Director/Technical  
Legal Services  
Division of Auditing and Financial Analysis (Devlin/Causseaux/  
File Folder)  
Division of Water and Wastewater (Casey)  
Orlando District Office (Forbes)

Research and Regulatory Review (Harvey)  
Office of Public Counsel

DOCUMENT NUMBER-DATE

03822 APR-3 96

FPSC-RECORDS/REPORTING

FLORIDA PUBLIC SERVICE COMMISSION  
AUDIT REPORT  
12 MONTHS ENDED DECEMBER 31, 1995

Field Work Completed  
March 15, 1996

COLONY PARK UTILITIES, INC.  
Merritt Island, Florida  
Brevard County  
Rate Case Audit

Docket Number 951591-SU  
Audit Control Number 96-024-3-1

  
\_\_\_\_\_  
Anne D. Lawler  
Audit Manager

  
\_\_\_\_\_  
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District Audit Supervisor  
Orlando

DOCUMENT NUMBER-DATE  
03822 APR-38  
FPSC-RECORDS/REPORTING

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## I. EXECUTIVE SUMMARY

**Audit Purpose:** We have applied the procedures described in Section II of this report to prepare proposed schedules of Rate Base, Net Operating Income, and Capital Structure for the twelve-month period ending December 31, 1995 for the Colony Park Utilities, Inc. petition for staff-assisted rate case, FPSC Docket 951591-SU.

**Scope Limitation:** The last day of field work was March 15, 1996. This report is not based on any confidential information.

**Disclaim Public Use:** 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 to their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

**Opinion:** The schedules of Rate Base, Net Operating Income, and Capital Structure for the twelve-month period ending December 31, 1995, represent Colony Park Utilities, Inc. books and records which have not been maintained in substantial compliance with Commission Directives. The expressed opinions extend only to the scope of work described in Section II of this report.

### **Summary Findings:**

The Utility does not maintain its accounts in accordance with the NARUC System of Accounts.

The Utility did not maintain its tariff where it would be available for customer inspection during business hours.

The Utility does not bill Colony Mobile Home Village, a related company for wastewater services in accordance with its tariff.

Plant in service should be increased \$38,513. In addition, there was a second percolation pond constructed that has no documented cost.

Land should be decreased \$27,479 so only that which is in service is included in rate base. Land held for future use totals \$49,888.

Contributions-in-Aid-of-Construction and its related amortization have not been recorded by the Utility.

Depreciation is not being calculated using rates per FAC 25-30.140. Accumulated depreciation is decreased \$20,189.

Management fees should be reduced \$5,505 to more adequately reflect the value of the services being received. The manager bills separately for repair work performed.

There were numerous errors in posting payments to the general ledger; as a result purchased power is reduced \$1,406 and contract services reduced \$2,875.

The Utility uses a cash basis of accounting. Bad debts were recorded of \$181.

Rate case expenses of \$1,325 were accrued. The total expenses of \$1,600 are to be amortized over four years.

## II. AUDIT SCOPE

The opinions contained in this report are based on the audit work described below. When used in this report, COMPILED means that audit work includes:

COMPILED - Means that the audit staff reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity, or inconsistency; and, except as otherwise noted, performed no other audit work.

**RATE BASE:** Reconciled beginning rate base items to prior audit. Compiled Utility Plant in Service and Contributions-in-Aid-of-Construction (CIAC) from the last historical year in the prior audit to the end of the test year. Traced all plant additions to vendor invoices and/or other cost supporting documentation. Recomputed Accumulated Depreciation and Accumulated Amortization - CIAC. Computed Working Capital.

**NET OPERATING INCOME:** Scheduled Net Operating Income for the test year. Recomputed revenue on an accrual basis. Scheduled all cash disbursements for the test year and judgmentally selected payments for additional testing. Recomputed depreciation and amortization according to FAC 25-30.140. Recomputed Taxes Other than Income for the test year.

**CAPITAL STRUCTURE:** Compiled equity account balances as of December 31, 1995.

**OTHER:** Prepared a working trial balance for the 12-month period ended December 31, 1995. Prepared schedule of water usage and obtained copies of federal tax returns, as available, per ASR.

**AUDIT EXCEPTION NO. 1**

**SUBJECT: BOOKS AND RECORDS OF THE UTILITY**

**STATEMENT OF FACT:**

The Uniform System of Accounts for Class C Sewer Utilities states that, "The books of accounts of all sewer utilities shall 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 books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda and information used in determining the facts regarding a transaction.

The Utility was unable to provide copies of its General Ledger and income tax returns for the years 1989, 1990, 1991 and 1992. They were also not able to provide numerous invoices pertaining to expenditures made in 1995.

The Utility does not keep its records on an accrual basis.

The Utility does not use the account numbers required by the Uniform System of Accounts and all plant in service is combined under one account number.

**AUDITOR'S OPINION:**

The Utility should prepare its financial records so that they are in compliance with the Uniform System of Accounts.

The Utility should be ordered to keep the necessary supporting documentation for all expenditures for a minimum of three years, and a permanent file should be set up to maintain evidence supporting all capital expenditures.

**AUDIT EXCEPTION NO. 2**

**SUBJECT:** Tariff

**STATEMENT OF FACT:**

FAC 25-30.135 states that,

Each utility shall maintain for customer inspection upon request during regular business hours at its main in-state business office, a current copy of Chapters 25-9, 25-22 and 25-30, Florida Administrative Code, a current copy of Chapter 367, F.S., and a copy of the utility's current tariffs, and current developer agreements.

Colony Park Utilities, Inc. has not been maintaining its tariff where it would be available for customer inspection during regular business hours. A request to view the tariff was made by the auditor on February 27, 1996. The Utility was not able to locate the tariff until March 8, 1996.

Furthermore, the Utility was granted a rate increase under FPSC Order No. 15274 dated October 21, 1985. While the Utility is using the rates established by Order 15274, its tariff contains rate schedules dated December 21, 1977.

**AUDITOR'S OPINION:**

The Utility should be ordered to comply with FAC 25-30.135, i.e., maintaining the tariff in a location where it is available for customer inspection and keeping the tariff current.

**AUDIT EXCEPTION NO. 3**

**SUBJECT: REVENUE**

**STATEMENT OF FACT:**

FPSC Order No. 15274 provided a rate structure for billing per gallons used by Colony Park Mobile Home Village, a related company. The Utility does not bill the mobile home park and did not recognize any revenue from them prior to 1993. For the test year, the Utility imputed revenue of \$24,000 for services rendered.

Colony Park Utilities, Inc. records its revenue on a cash basis, recording the net amount received from the City of Cocoa. The City of Cocoa performs all billing and collection functions for the Utility. The City does not bill the mobile home park for wastewater services because they were not notified that it is serviced by the Utility.

The Utility reported revenue of \$15,583 from customers other than the mobile home park.

The Utility reported total revenue of \$39,583 (24,000 + 15,583).

**AUDITOR'S OPINION:**

Revenue was recalculated using usage reports provided by the City of Cocoa. Revenue from customers other than the mobile home park totaled \$15,208 on an accrual basis. Revenue from the mobile home park should be \$20,420 for the year, resulting in total revenue of \$35,628.

Therefore, revenue should be reduced by \$3,955 (39,583 - 35,628) for 1995.



**AUDIT DISCLOSURE NO. 1**

**SUBJECT: PLANT IN SERVICE**

**STATEMENT OF FACT:**

FPSC Order No. 15274 established plant in service at \$67,471 as of February 28, 1984. Colony Park Utilities, Inc. had \$43,006 on their records on that date; therefore, an increase of \$24,465 needed to be posted to its books. During 1985 the Utility recorded an increase of \$22,476 in plant; however, there is no documentation supporting the entry. It is not certain whether it was supposed to be an adjusting entry or if it represented new plant additions.

On December 23, 1983 the Utility received a permit to construct a second percolation pond. A second pond was constructed; however, the Utility cannot provide any documentation regarding the costs of constructing this pond. It is not known for certain when the pond was completed.

During 1991 the Utility capitalized costs totaling \$9,000. They cannot locate their financial statements or tax returns for that year, therefore, the exact composition of that total is unknown. Listed on Schedule 2 are plant additions that were invoiced during 1991.

The Utility cannot locate evidence supporting its payment to Home Depot for \$402 on October 24, 1994.

The Utility has not recorded any retirements.

As of December 31, 1995, the Utility has \$87,084 of plant assets recorded on its records.

**AUDITOR'S OPINION:**

Itemized on Schedule 2 are invoices totaling \$22,624 that were not capitalized by the Utility that should be included in plant in service.

Also listed on Schedule 2 are invoices from 1991 amounting to \$23,302 that should be capitalized. The Utility only capitalized costs totaling \$9,000. The difference of \$14,302 should be added to plant in service.

The payment to Home Depot for \$402 should be removed from plant as there is no documentation supporting the payment.

Audit Disclosure No. 1

Page 2

The above items, as detailed on Schedule 1 represent a net increase in plant of \$38,513 bringing its plant balance to \$125,597. It should be noted that the construction of the second percolation is not included in this balance, nor are there any retirements. Therefore, in order to most accurately determine the cost of the existing plant, an original cost study should be performed.

AUDIT DISCLOSURE NO. 1  
SCHEDULE 1

RECONCILIATION OF PLANT IN SERVICE FROM GENERAL LEDGER TO AUDIT BALANCE

|  |         |
|--|---------|
| BALANCE PER GENERAL LEDGER @ 12/31/95                            | 87,084  |
| ADJUST G/L ENTRY RECONCILING TO PRIOR<br>AUDIT (24,465 - 22,476) | 1,989   |
| PLANT ADDITIONS NOT RECORDED BY UTILITY                          | 22,624  |
| 1991 PLANT ADDITIONS NOT RECORDED                                | 14,302  |
| REMOVE ADDITIONS PER UTILITY THAT LACK<br>PROPER DOCUMENTATION   | (402)   |
|  | -----   |
| BALANCE PER AUDIT @ 12/31/95                                     | 125,597 |
|  | =====   |

AUDIT DISCLOSURE NO. 1  
SCHEDULE 2

THE FOLLOWING ITEMS WERE EXPENSED BY THE UTILITY AND NOT RECORDED AS PLANT ADDITIONS

| DATE     | INVOICE NUMBER | PAYEE                      | AMOUNT | DESCRIPTION                                |
|----------|----------------|----------------------------|--------|--|
| 10/22/84 | 37065          | ELECTRO-TRONICS, INC.      | 869    | CHLORINATOR                                |
| 9/16/87  | 20604          | MID-FLORIDA PUMP & SUPPLY  | 2,000  | PUMP, ENCLOSURE & SWITCHES                 |
| 11/2/87  | 20604          | MID-FLORIDA PUMP & SUPPLY  | 2,774  | PUMP, ENCLOSURE & SWITCHES                 |
| 10/5/89  | 25336          | MID-FLORIDA PUMP & SUPPLY  | 3,442  | NO. 6 SUTOR BILT BLOWER & MOTOR            |
| 8/29/90  |                | PAID BY MOBILE HOME PARK   | 500    | INSTALL SEWER LINES                        |
| 2/28/93  | 3180           | EMS                        | 685    | 10HP WEG MOTOR & 2 CAPACITORS              |
| 5/5/93   |                | CUSTOM FENCE               | 800    | FENCE AT LIFT STATION                      |
| 6/8/93   |                | CUSTOM FENCE               | 385    | FENCE AT LIFT STATION                      |
| 7/6/94   | 4463           | EMSI                       | 1,789  | REPLACED CHECK & ISOLATION VALVES & PIPING |
| 1/10/95  | 198080         | BILL'S A/C                 | 1,225  | SET UP SHED                                |
| 3/21/95  | 11667          | CUSTOM DOCK                | 186    | PILING TO RAISE FLOW METER                 |
| 3/31/95  | NONE           | BILL'S A/C                 | 1,250  | INSTALL PILINGS/RESET FLOW METER           |
| 4/19/95  | 50958          | SCOTTY'S                   | 439    | RR TIES FOR WALL AT PLANT                  |
| 4/22/95  | NONE           | AL LEVESQUE                | 180    | LABOR ON RETAINING WALL                    |
| 10/4/95  |                | PRICE RITE PLUMBING        | 182    | 1/2 HP PUMP                                |
| 11/21/95 | 23568          | S.A.S. (E.K. PHELPS & CO.) | 1,696  | REBUILD PUMP                               |
| 12/31/95 |                | S.A.S. (E.K. PHELPS & CO.) | 81     | TAX ON PUMP                                |
| 12/3/95  | 3744549        | BILL'S A/C FOR DAVIS WATER | 2,266  | VALVES                                     |
| 12/14/95 |                | DARBY BLANCHARD            | 1,875  | REHAB BAKER LIFT STATION                   |
|          |                |                            | -----  |  |
|          |                |                            | 22,624 |  |
|          |                |                            | =====  |  |

DURING 1991 THE FOLLOWING IMPROVEMENTS WERE MADE TO THE PLANT:

|         |         |                       |        |                                  |
|---------|---------|-----------------------|--------|----------------------------------|
| 8/14/91 |         | DARBY BLANCHARD       | 1,505  | INSTALL 2 SUBMERSIBLE PUMPS W/   |
| 8/14/91 |         | DARBY BLANCHARD       | 6,020  | RAIL LIFTING SYS & CONTROL PANEL |
| 8/18/91 | 3020822 | DAVIS WATER & WASTE   | 2,510  | VALVES FOR LIFT STATION          |
| 8/14/91 | 2208    | ELLIS K. PHELPS & CO. | 13,267 | 2 SUBMERSIBLE PUMPS              |
|         |         |                       | -----  |                                  |
|         |         | TOTAL IMPROVEMENTS    | 23,302 |                                  |
|         |         | RECORDED BY UTILITY   | 9,000  |                                  |
|         |         |                       | -----  |                                  |
|         |         | UNRECORDED ADDITIONS  | 14,302 |                                  |
|         |         |                       | =====  |                                  |

THE FOLLOWING ITEM WAS INCLUDED IN PLANT BUT LACKS SUPPORTING DOCUMENTATION AND IS THEREFORE BEING DISALLOWED .

|          |  |            |       |  |
|----------|--|------------|-------|--|
| 10/24/94 |  | HOME DEPOT | 402   |  |
|          |  |            | ===== |  |

**AUDIT DISCLOSURE NO. 2**

**SUBJECT: LAND AND LAND HELD FOR FUTURE USE**

**STATEMENT OF FACT:**

The Utility has recorded Land of \$30,479 and Land Improvements of \$14,289 on its records. Of these amounts, \$3,000 is for the original plant site; all other costs are for the additional land that was purchased on November 22, 1994.

The new land is not presently in use.

**AUDITOR'S OPINION:**

The cost of the land that is currently in use is \$3,000.

Land Held for Future use is valued at:

|   |                           |
|---|---------------------------|
| Land Improvements per Utility           | \$ 14,289                 |
| Land per Utility (30,479 - 3,000)27,479 |                           |
| Additional improvements (See Schedule)  | <u>8,120</u>              |
| TOTAL                                   | <u>\$ 49,888</u><br>===== |

SCHEDULE FOR AUDIT DISCLOSURE NO. 2

THE UTILITY HAS NOT INCLUDED THE FOLLOWING COSTS IN ITS LAND VALUE.

| DATE     | CHECK NUMBER | INVOICE NUMBER | PAYEE             | AMOUNT   | DESCRIPTION                 |
|----------|--------------|----------------|-------------------|----------|-----------------------------|
| 2/15/95  | 779          |                | ABC LAND CLEARING | 800.00   | 10 LOADS OF DIRT            |
| 4/11/95  | 809          | 32395-9510     | B.K.I.            | 922.92   | PREP OF APPLICATION FOR DEP |
| 5/10/95  | 829          | N/A            | C&R CONSTRUCTION  | 700.00   |                             |
| 5/10/95  | 830          | N/A            | RAJ VERNA         | 600.00   |                             |
| 5/10/95  | 831          | 3511           | ABC LAND CLEARING | 641.35   | FILL DIRT & ROCK            |
| 6/2/95   | 837          |                | DAVE KILOGDIE     | 140.00   | BOBCAT WORK                 |
| 6/28/95  | 844          | 61995-9510     | BK ENTERPRISES    | 1,184.14 |                             |
| 11/23/94 |              |                | ABC LANDCLEARING  | 1,587.00 |                             |
| 4/11/95  | 810          |                | DEP               | 500.00   | APPLICATION FEE             |
| 7/30/95  | 856          |                | BKI               | 420.00   | PREP OF APPLICATION FOR DEP |
| 10/17/95 | 881          |                | C&R CONSTRUCTION  | 625.00   |                             |
|          |              |                |                   | 8,120.41 |                             |
|          |              |                |                   | -----    |                             |

**AUDIT DISCLOSURE NO. 3**

**SUBJECT:** CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION (C.I.A.C.)

**STATEMENT OF FACT:**

FPSC Order No. 15274 dated October 21, 1985 established C.I.A.C. of \$23,000 and Accumulated Amortization of C.I.A.C. of \$2,030. The Utility does not have C.I.A.C. and its related accumulated amortization recorded on its books and records. Furthermore, they do not recognize amortization of C.I.A.C. annually.

The above-referenced Order did not provide for tap-in fees for the Utility.

In 1990 Colony Park Mobile Home Village paid for the installation of additional water and sewer lines. The cost of the sewer lines was \$500.

**AUDITOR'S OPINION:**

The \$500 paid by Colony Park Mobile Home Village for new sewer lines should be added to plant in service (See Audit Disclosure No. 1) and C.I.A.C. Therefore, the Utility should record a total of \$23,500 on its books for C.I.A.C.

The Utility should also record accumulated amortization of \$10,113 on its records.

**AUDIT DISCLOSURE NO. 4**

**SUBJECT: DEPRECIATION**

**STATEMENT OF FACT:**

Colony Park Utilities, Inc. has \$64,398 recorded in its general ledger for accumulated depreciation as of December 31, 1995.

The Utility has not used the depreciation rate established for it under FPSC Order No. 15274 to record depreciation expense on its books.

The Utility does not provide for amortization of C.I.A.C. (See Audit Disclosure No. 3.)

**AUDITOR'S OPINION;**

The auditor recalculated accumulated depreciation utilizing the rates established by FPSC Order No. 15274 through 1994, and according to FAC 25-30.140 for 1995. The Utility should reduce the amount of accumulated depreciation on its books as of December 31, 1995 by \$20,189 to reflect a balance of \$44,209 (64,398 - 20,189).

Depreciation for 1995 was calculated to be \$2,519; amortization expense for the year is \$471. This results in \$2,048 for depreciation expense, net of amortization, for 1995.



AUDIT DISCLOSURE NO. 5

**SUBJECT:** PURCHASED POWER AND INTEREST INCOME

**STATEMENT OF FACT:**

The Utility has \$7,725 recorded in its general ledger for purchased power for 1995. This amount includes late fees of \$40 that were paid.

Florida Power & Light applied \$17 of interest from deposits against bills to the Utility.

Check No. 877 is recorded in the general ledger as being \$1,917; however, the check was actually for \$511, a difference of \$1,406.

**AUDITOR'S OPINION:**

The Utility should recognize \$17 of interest income.

Purchased power should be reduced by \$1,429 to \$6,296 as detailed below.

|                             |            |                   |
|-----------------------------|------------|-------------------|
| Purchased Power per Utility |            | \$7,725.          |
| Correct Check #877          | (\$1,406.) |                   |
| Interest applied by FPL     | 17.        |                   |
| Deduct late fees paid       | ( 40.)     |                   |
| Total adjustment            |            | <u>( 1,429.)</u>  |
| Purchased Power per audit   |            | \$6,296.<br>===== |

**AUDIT DISCLOSURE NO. 6**

**SUBJECT: MATERIALS AND SUPPLIES**

**STATEMENT OF FACT:**

On March 6, 1995, the Utility issued a check for \$50 to Bill Warren for petty cash. A second check for petty cash of \$100 was issued to Bill Warren on April 13, 1995. The Utility was not able to provide any receipts to support the expenditures made with the petty cash.

**AUDITOR'S OPINION:**

Due to the lack of evidence supporting the expenditure of petty cash funds, this \$150 should be disallowed as an expense for rate making purposes.

**AUDIT DISCLOSURE NO. 7**

**SUBJECT: CONTRACT SERVICES - MANAGEMENT FEES**

**STATEMENT OF FACT:**

Colony Park Utilities, Inc. is paying William Warren, a related party, \$800 a month for management fees. His duties as manager include overseeing general operation of the plant, ordering supplies, calling for sludge removal, ordering analysis test, responding to emergency service problems, contracting out services, paying all bills and depositing income.

In addition to his management fee, Mr. Warren bills the Utility either individually or through his company, Bill's A/C, for repair work that he performs. During 1995 this represented \$4,140 in additional payments, directly or indirectly, to Mr. Warren.

FPSC Order No. 15274 dated October 1985 allowed \$3,000 annually for a salary for the owner/manager and \$450 annually for administrative salaries, totaling \$3,450 a year. During 1995 Mr. Warren was paid \$12,940 (8,800 in management fees plus 4,140 for labor). In 1994 he was paid \$800 for his January 1995 management fee.

According to the consumer price index, inflation from 1985 to 1995 was 53.5%.

The Utility also recorded management fees, with an offset to the loan account, of \$2,000 that were paid to Bill Warren by Colony Park Mobile Home Village, a related company. There is no documentation to support the relationship between these payments and services provided to the Utility.

**AUDITOR'S OPINION:**

Mr. Warren makes one or two deposits per month and writes an average of 10 checks per month. Sludge removal is done twice a year. Chemicals are ordered approximately every three months. The Utility has contracted out with a licensed plant operator to maintain the plant. The auditor's observation was that Mr. Warren was reluctant to make trips to the plant site and did not exhibit a professional, managerial attitude towards the Utility. When asked questions, he would respond that someone else should be asked. He did not take the initiative to obtain data willingly and stated that he didn't "have time for this," he had his own business to run.

Audit Disclosure No. 7  
Page 2

Since Mr. Warren is billing separately for repair work, which would take the greater amount of time, the management fees that he is paying himself should not be completely allowed for rate making purposes.

Allowing for inflation from 1985, the amount allowed in the previous Order could be increased to \$5,295 ( $3,450 \times 1.535$ ). This would result in a reduction of \$3,505 ( $8,800 - 5,295$ ). The management fees should be further reduced by the \$2,000 that was paid by the mobile home park to Bill Warren, resulting in a total reduction of \$5,505.

**AUDIT DISCLOSURE NO. 8**

**SUBJECT: CONTRACT SERVICES**

**STATEMENT OF FACT:**

When posting payments to the general ledger, the following checks were posted for amounts different than what they cleared the bank for:

| Check No.      | Posted | Actual | Variance          |
|----------------|--------|--------|-------------------|
| 806            | 3,000. | 120.   | (2,880.)          |
| 775            | 80.    | 85.    | <u>5.</u>         |
| Total Variance |        |        | (2,875.)<br>===== |

Check Number 812 for \$50 to Bobby & Son was not posted to the general ledger.

Bill's A/C, a company owner by the Utility's manager, Bill Warren, billed the Utility \$65 for repairs to the furnace in the office of the mobile home park.

The City of Cocoa charges \$.63 per bill issued for providing billing and collection services to the Utility. The fee is reduced by the City from the gross amount of revenue due. The Utility does not recognize this expense on its records.

**AUDITOR'S OPINION:**

The auditor recalculated the amount billed by the City of Cocoa during 1995 to be \$1,143.

Contract services should be decreased by \$2,077 as itemized below, to adjust for the above-cited errors in posting the cash disbursements to the general ledger.

|                                     |                  |
|-------------------------------------|------------------|
| Adjust for errors in posting checks | (2,875)          |
| Include check number 812            | 50               |
| Include billing fees                | 1,143            |
| Remove mobile home park expense     | <u>( 65)</u>     |
| TOTAL                               | (1,747)<br>===== |

**AUDIT DISCLOSURE NO. 9**

**SUBJECT: BAD DEBT EXPENSE**

**STATEMENT OF FACT:**

Colony Park Utilities, Inc. maintains its records on a cash basis and records as revenue the net amount received from the City of Cocoa. The City of Cocoa performs all billing functions for the Utility. On September 30, 1995, the end of the city's fiscal year, they recorded bad debts of \$181 attributable to customers of the Utility. The Utility has not recorded any bad debt expense on its records.

**AUDITOR'S OPINION:**

Since revenue is a pass-through from the City of Cocoa, the Utility should recognize \$181 of bad debt expense for 1995.

**AUDIT DISCLOSURE NO. 10**

**SUBJECT: REGULATORY COMMISSION EXPENSE**

**STATEMENT OF FACT:**

Commission Rules require that rate case expenditures should be deferred and amortized over a four-year period. During the test period, the Utility paid \$275 to an outside consultant to assist them in preparing their application for a rate increase. An additional \$325 was billed during 1995 had not been paid as of December 31, 1995, and was not accrued. Regulatory filing fees of \$1,000 were not accrued. Total regulatory commission expense for the year was \$1,600 (275 + 325 + 1,000).

The Utility included \$275 in contract services for 1995.

**AUDITOR'S OPINION:**

The Utility should remove the \$275 from contract services for the test period. They should amortize the total \$1,600 over a four-year period, allowing \$400 for the test period as regulatory commission expense. The remaining \$1,200 should be treated as a miscellaneous deferred debit.

AUDIT DISCLOSURE NO. 11

**SUBJECT:** RECLASSIFICATIONS ACCORDING TO NARUC ACCOUNTS

**STATEMENT OF FACT:**

The Utility does not maintain its records according to the NARUC System of Accounts for wastewater companies. (See Audit Exception No. 1.) Many of the payments made were classified to incorrect accounts.

**AUDITOR'S OPINION:**

The following adjustments should be made in order to properly classify payments according to the Uniform System of Accounts.

|     |                   |          |
|-----|-------------------|----------|
| 720 | Materials         | ( 678)   |
| 730 | Contract Services | (14,090) |
| 740 | Rents             | 1,295    |
| 775 | Miscellaneous     | 4        |
| 250 | Notes Payable     | (2,270)  |



AUDIT DISCLOSURE NO. 12

SUBJECT: TAXES OTHER THAN INCOME

STATEMENT OF FACT:

Colony Park Utilities, Inc. paid its 1993 and 1994 Regulatory Assessment fees during 1995. The fees were \$1,143 and \$1,920, respectively, for a total of \$3,063. The Utility did not accrue the fee that is due for 1995.

The Utility's Tangible Property Tax assessment due November 1995 was \$149. The Utility paid \$151 on December 3, 1995, failing to take the maximum discount available. Real estate taxes due November 1995 for \$583 were also paid on December 3, 1995, for \$589.

The Utility has \$4,423 in its general ledger for taxes other than income.

AUDITOR'S OPINION:

Taxes, other should be reduced by the total of the 1993 and 1994 regulatory assessment fees that were paid in 1995 and increased for the amount that should be accrued for 1995, \$1,603 (revenue of \$35,628 per Audit Exception No. 3 times .045).

The difference of \$2 (151 - 149) on the Tangible Property Tax bill and \$6 (589 - 583) on the Real Estate taxes should be disallowed for rate making purposes.

|  |           |                 |
|--|-----------|-----------------|
| Taxes, other per general ledger                |           | \$4,423         |
| Remove regulatory assessments from prior years | (\$3,063) |                 |
| Accrue 1995 regulatory assess fee              | 1,603     |                 |
| Reduce taxes for forfeited discounts           | <u>8</u>  |                 |
| Total Adjustments                              |           | <u>( 1,467)</u> |
| Total taxes, other per audit                   |           | \$2,956         |
|  |           | =====           |

**AUDIT DISCLOSURE NO. 13**

**SUBJECT: EQUITY**

**STATEMENT OF FACT:**

The Utility has loan accounts with its sole shareholder and a related company that total \$72,134 as of December 31, 1995, per the general ledger. There are no formal loan agreements, and no interest is being accrued on these loans.

In 1993 \$2,580 of depreciation expense was debited to the loan account instead of accumulated depreciation. The effect on accumulated depreciation was addressed in Audit Disclosure 4.

**AUDITOR'S OPINION:**

The loan balance should be increased from \$72,134 to \$74,714 to reverse the posting error.

For rate making purposes, the loan balances should be considered additional paid in capital due to there not being any repayment agreement and the lack of accrued interest.

COLONY PARK UTILITIES, INC.  
 STAFF ASSISTED RATE CASE  
 DOCKET NO. 951591-SU  
 RATE BASE  
 TEST YEAR ENDED 12/31/95

EXHIBIT 1

| DESCRIPTION              | PER<br>GENERAL LEDGER<br>12/31/95 | AUDIT<br>ADJUST. | REF    | PER AUDIT<br>12/31/95 |
|--------------------------|-----------------------------------|------------------|--------|-----------------------|
| UTILITY PLANT IN SERVICE | 87,084                            | 38,513           | AD-1   | 125,597               |
| LAND (NOTE 2)            | 30,479                            | (27,479)         | AD-2   | 3,000                 |
| LAND IMPROVEMENTS        | 14,289                            | (14,289)         | AD-2   | 0                     |
| CIAC                     | 0                                 | (23,500)         | AD-3   | (23,500)              |
| AMORTIZATION OF CIAC     | 0                                 | 10,113           | AD-3   | 10,113                |
| ACCUM DEPRECIATION       | (64,398)                          | 20,189           | AD-4   | (44,209)              |
| WORKING CAPITAL          |                                   | 3,799            | NOTE 1 | 3,799                 |
| TOTALS                   | 67,454                            | 7,346            |        | 74,800                |

NOTES:

1. WORKING CAPITAL FORMULA : 1/8 OPERATING AND MAINTENANCE EXPENSE.
2. THIS DOES NOT INCLUDE LAND HELD FOR FUTURE USE OF \$49,888

COLONY PARK UTILITIES, INC.  
 STAFF ASSISTED RATE CASE  
 DOCKET NO. 951591 - SU  
 NET OPERATING INCOME  
 TEST YEAR ENDED 12/31/95

EXHIBIT 2

| DESCRIPTION              | PER GENERAL<br>LEDGER<br>12/31/95 | AUDIT<br>ADJUST. | REF   | PER AUDIT<br>12/31/95 |
|--------------------------|-----------------------------------|------------------|-------|-----------------------|
| OPERATING REVENUES       | 39,583                            | (3,955)          | AE-3  | 35,628                |
| OPERATING EXPENSES:      |                                   |                  |       |                       |
| O & M EXPENSE            | 52,383                            | (1,429)          | AD-5  |                       |
|                          |                                   | (150)            | AD-6  |                       |
|                          |                                   | (5,505)          | AD-7  |                       |
|                          |                                   | (1,747)          | AD-8  |                       |
|                          |                                   | 181              | AD-9  |                       |
|                          |                                   | (275)            | AD-10 |                       |
|                          |                                   | 400              | AD-10 |                       |
|                          |                                   | (678)            | AD-11 |                       |
|                          |                                   | (14,090)         | AD-11 |                       |
|                          |                                   | 1,295            | AD-11 |                       |
|                          |                                   | 4                | AD-11 |                       |
|                          |                                   |                  |       | 30,389                |
| DEPRECIATION EXPENSE     | 4,962                             | (2,914)          | AD-4  | 2,048                 |
| TAXES OTHER              | 4,423                             | (1,467)          | AD-12 | 2,956                 |
| INCOME TAX EXPENSE       | 0                                 |                  |       | 0                     |
| TOTAL OPERATING EXPENSE: | 61,768                            | (26,375)         |       | 35,393                |
| NET OPERATING INCOME     | (\$22,185)                        | \$22,420         |       | \$235                 |

COLONY PARK UTILITIES, INC.  
 STAFF ASSISTED RATE CASE  
 DOCKET NO. 951591-SU  
 CAPITAL STRUCTURE  
 TEST YEAR ENDED 12/31/95

SCHEDULE 3

| (A)<br>DESCRIPTION | (B)<br>PER GENERAL<br>LEDGER<br>12/31/95 | (C)<br>AUDIT<br>DISCL. | (D)<br>REF. | (E)<br>PER AUDIT<br>12/31/95 | (F)<br>RATIO   | (G)<br>COST<br>RATE | (H)<br>WEIGHTED<br>COST OF<br>CAPITAL |
|--------------------|--|------------------------|-------------|------------------------------|----------------|---------------------|---------------------------------------|
| COMMON EQUITY NET  | 50,766                                   |                        |             | 50,766                       | 40.46%         | 11.88%              | 4.81%                                 |
| PAID IN CAPITAL    |  | 74,714                 | AD-13       | 74,714                       | 59.54%         | 11.88%              | 7.07%                                 |
| LONG-TERM DEBT     | 0  |                        |             | 0                            | 0.00%          |                     | 0.00%                                 |
| CUSTOMER DEPOSITS  | 0  |                        |             | 0                            | 0.00%          |                     | 0.00%                                 |
| <b>TOTALS</b>      | <b>\$50,766</b>                          | <b>\$74,714</b>        |             | <b>\$125,480</b>             | <b>100.00%</b> |                     | <b>11.88%</b>                         |

NOTES:

- A. EQUITY INCLUDES STOCK AND RETAINED EARNINGS
- B. EQUITY RATE PER FPSC ORDER PSC-95-0982-FOF-WS
- C. SHAREHOLDER LOANS THAT HAVE NO FORMAL AGREEMENT AND BEAR NO INTEREST ARE CONSIDERED PAID-IN CAPITAL

State of Florida

Commissioners:  
SUSAN F. CLARK, CHAIRMAN  
J. TERRY DEASON  
JULIA L. JOHNSON  
DIANE K. KIESLING  
JOE GARCIA



DIVISION OF RECORDS &  
REPORTING  
BLANCA S. BAYO  
DIRECTOR  
(904) 413-6770

## Public Service Commission

April 4, 1996

Lenore Warren  
Colony Park Utilities, Inc.  
32 Mangrove Drive  
Merritt Island, Florida 32953-6804

Dear Ms. Warren:

RE: Docket No. 951591-SU -- Colony Park Utilities, Inc.  
Staff-assisted Rate Case Audit Report  
Audit Control #96-024-3-1

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script that reads "Kay Flynn".

Kay Flynn  
Chief, Bureau of Records

KF/mas  
Enclosure  
cc: Public Counsel  
John McPherson