

M E M O R A N D U M

May 9, 1996

TO: DIVISION OF RECORDS AND REPORTING

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

RE: DOCKET NO. ~~960132-WS~~ -- COLONIES WATER COMPANY  
STAFF-ASSISTED RATE CASE AUDIT REPORT - PERIOD ENDED DECEMBER 31, 1995  
AUDIT CONTROL NO. 96-051-4-2

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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 two diskettes. The diskettes 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:

Colonies Water Company  
Tom Keenan  
6603 Colonial Drive  
Margate, FL 33063-5544

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 (Dewberry)  
Miami District Office (Welch)

Research and Regulatory Review (Harvey)  
Office of Public Counsel

DOCUMENT NUMBER-DATE  
05277 MAY-96  
FPSC-RECORDS/REPORTING

**FLORIDA PUBLIC SERVICE COMMISSION**

**AUDIT REPORT**

**12 MONTHS ENDING DECEMBER 31, 1995**

**Field Work Completed**

**March 26, 1996**

**COLONIES WATER COMPANY**

**Margate, Florida**

**Broward County**

**Staff Assisted Rate Case**

**Docket 960132-WS**

**Audit Control Number 96-051-4-2**

*Iliana H. Piedra*

**Iliana H. Piedra**

*Kathy Welch*

**Kathy Welch  
District Audit Supervisor  
Miami**

DOCUMENT NUMBER-DATE

05277 MAY-98

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 schedules of Rate Base, Net Operating Income, and Capital Structure for the twelve month period ending December 31, 1995 for Colonies Water Company's Petition for staff assisted rate case, FPSC Docket 960132-WS.

**Scope Limitation:** The exit conference was held on May 3, 1996. This report is based on confidential information which is separately filed with the Commission Clerk.

**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 represent Colonies Water Company's books and records maintained in substantial compliance with Commission Directives; The expressed opinions extend only to the scope of work described in section II of this report.

## II. AUDIT SCOPE:

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

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

**EXAMINED:** Means that the audit staff reconciled exhibit amounts with the general ledger; traced general ledger account balances to subsidiary ledgers; applied selective analytical review procedures; tested account balances to the extent further described; and disclosed any error, or inconsistency observed.

**RATE BASE:** Reconciled beginning Rate Base items to FPSC transfer order. Examined plant additions for 1995; recalculated test year depreciation using rates per FPSC rule. Reconciled Plant to the tax returns. Toured utility site.

**NET OPERATING INCOME:** Compiled revenues using the actual meter reads and current rates; performed a billing analysis. Examined operating and maintenance expenses, depreciation expense and regulatory assessment fee.

**CAPITAL STRUCTURE:** Prepared Cost of Capital using the parent's debt structure.

### III. AUDIT EXCEPTIONS

#### AUDIT EXCEPTION NO. 1

#### SUBJECT: NON UTILITY EXPENSES

#### STATEMENT OF FACTS:

The company has charged \$1,180.14 to account 6040-30 - Sewer Maintenance and \$750.62 to account 6050-10 Lawn & Common Maintenance.

Melrose Irrigation Supply	61.94	Sprinkler related
Melrose Irrigation Supply	442.66	Sprinkler related
Melrose Irrigation Supply	28.17	Sprinkler related
Melrose Irrigation Supply	365.55	Sprinkler related
A.K.M Plumbing	100.11	Sprinkler related
A.K.M Plumbing	61.71	Sprinkler related
Rapid Rooter	120.00	Shower clog, clubhouse

TOTAL ACCOUNT 6040	1,180.14
TOTAL ACCOUNT 6050 - Beacon	
Sprinkler	750.62
TOTAL	1,930.76

#### AUDIT OPINION:

Account 6040-30 and 6050-10 should be reduced by \$1,180.14 and 750.62 (water - 375.31, sewer - 375.31, account 6050 was allocated 50% to water and 50% to sewer), respectively. These charges represent sprinkler parts and system repairs, and a repair at the clubhouse shower.

**AUDIT EXCEPTION NO. 2**

**SUBJECT: RECLASSIFICATION OF WATER METER REPAIRS**

**STATEMENT OF FACTS:**

The company has charged \$244.26 to account 6040-30 - Sewer Maintenance. This invoice represents payment to Kent Meters, Inc. for water meter repairs. It is not related to sewer maintenance.

**AUDIT OPINION:**

The amount should be reclassified from account 6040-30 to a water repair account.

**AUDIT EXCEPTION NO. 3**

**SUBJECT: LEGAL EXPENSES**

**STATEMENT OF FACTS:**

The company has charged \$247.00 to account 6445-20 Legal for expenses related to Buccaneer Water Company. This invoice represents payment for index and pass-through legal expenses from Rose, Sundstrom & Bentley.

**AUDIT OPINION:**

The amount should be removed from account 6445-20 (water - \$123.50 and sewer - \$123.50).



**AUDIT EXCEPTION NO. 4**

**SUBJECT: MISSING DOCUMENTATION**

**STATEMENT OF FACTS:**

Source documentation for the following was not provided by the company:

<u>ACCOUNT</u>	<u>JOB ID</u>	<u>DATE</u>	<u>AMOUNT</u>
6040-50	453646	5/25/95	872.50
6100-90	488659	9/25/95	505.00
6100-90	518997	12/25/95	<u>999.00</u>
			2,376.50

**AUDIT OPINION:**

Account 6040-50 should be reduced by \$872.50 for sewer and account 6100-90 should be reduced by \$1504.00 (water - \$752, sewer - \$752, account 6100 was allocated 50% to water and 50% to sewer).

**AUDIT EXCEPTION NO. 5**

**SUBJECT: TARIFF REQUIREMENTS**

**STATEMENT OF FACTS:**

The utility did not have a copy of the current tariff at the office. Commission Rule No. 25-30.135 (3) - Tariffs, Rules and Miscellaneous Requirements states

"Each utility shall maintain for customer inspection upon request during regular business hours at its main in-state 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...."

**AUDIT OPINION:**

The utility should keep a copy of the tariff in the business office.

#### **IV. AUDIT DISCLOSURES**

##### **AUDIT DISCLOSURE NO. 1**

**SUBJECT: SPRINKLER METER EXPENSE**

##### **STATEMENT OF FACTS:**

The utility has paid \$166.07 to the City of Margate for purchased water. The amount represents water expense to irrigate the entrance of the community. The gallons related to this amount total 83,900.

##### **AUDIT OPINION:**

The community should be charged for the water usage. Water revenues should be increased by \$218.75.

83,900 gallons times the \$2.55 per 1000 gallons plus the monthly base facility charge of \$4.80 = \$271.55.

**AUDIT DISCLOSURE NO. 2**

**SUBJECT: LIFT STATION SERVICE CONTRACT**

**STATEMENT OF FACTS:**

The company recorded a monthly charge of \$159 for the month of October and November 1995 for a lift station service contract. The payments are made to Butler National Service Inc. and are found in account 6040-30- Sewer Maintenance.

**AUDIT OPINION:**

Since the test year only includes two months of this expense, a proforma for \$1,590 is made to reflect twelve months of expenses.

**AUDIT DISCLOSURE NO. 3**

**SUBJECT: PAYROLL - CLERICAL**

**STATEMENT OF FACTS:**

The company has charged \$11,502.23 to Account 6110 Basic Pay - Clerical. The company explained these charges represent 50% salary allocations for the on-site bookkeeper.

**AUDIT OPINION:**

Per staff's conversation with on-site personnel it was determined to allow one week (per month) of payroll allocation for the bookkeeper.

Account 6110 - Clerical should be reduced by \$6,506.32, the calculation is as follows:

Bookkeeper's salary, per Company provided schedule \$386.74 per week times 12 months is \$4,640.88, plus 7.65% for payroll taxes is \$4,995.91 (\$11,502.23 - \$4,995.91 = \$6,506.32, \$3,253.16 - water, \$3,253.16 - sewer).

**AUDIT DISCLOSURE NO. 4**

**SUBJECT: MANAGEMENT FEE**

**STATEMENT OF FACTS:**

The company's books reflect a management fee amount of \$10,681. The company prepared a management fee allocation during the audit period which was reviewed by staff auditor. The new allocation totals \$9,861.

**AUDIT OPINION:**

Account 6620- Management fee should be reduced by \$820 (\$410 - water and \$410 - sewer, account was allocated 50% to water and sewer).

**AUDIT DISCLOSURE NO. 5**

**SUBJECT: PURCHASED WATER PROFORMA**

**STATEMENT OF FACTS:**

The first purchased water invoice recorded in Account 6330 pertains to the period of 11/18/94 - 12/15/94. The amount for water is \$5,831.36 and the related tax is \$583.14.

**AUDIT OPINION:**

Staff attempted to match purchased water to usage and has included in the test year the invoice for the period 12/15/95 - 1/15/96. The amount for water is \$5,155.68 and the related tax is \$515.57.

The account should be reduced by \$743 to reflect actual test year expenses.

PERIOD	WATER AMOUNT	WATER TAX AMOUNT
11/18-12/15/94	\$5,831.36	\$583.14
12/15- 1/15/96	\$5,155.68	\$515.57
DIFFERENCE	\$675.68	\$67.57
TOTAL	\$743.25	

**AUDIT DISCLOSURE NO. 6**

**SUBJECT: REVENUES**

**STATEMENT OF FACTS:**

Staff recalculated revenues using actual meter reads and rates in effect since August 1995. See the following page for calculations.

**AUDIT OPINION:**

Staff recalculated revenues because of the various discrepancies in billing reports. The difference in staff's calculation is mostly attributed to customers who were not billed and staff has included them in the calculation (Guard house, heritage club, clubhouse and maintenance facility).

Revenues should be increased by \$12,127 for water and \$11,034 for sewer. The regulatory assessment fee should be increased by \$546 for water and \$497 for sewer.

$$\$12,127 \cdot 4.5\% = \$546$$

$$\$11,034 \cdot 4.5\% = \$497$$



12/95  
REVENUE CALCULATIONS

WATER  
-----

	# OF BILLS	GALLONAGE	TOTAL
RESIDENTIAL	9,813	23,077,680	
GENERAL SERVICE	4	4,240,917	
	-----	-----	
	9,817	27,318,597	
		27,318,597	
	\$4.80	\$2.55	
	-----	-----	
	\$47,121.60	\$69,662.42	\$116,784 PER STAFF
			\$104,657 PER BOOKS
			-----
			\$12,127
			=====

SEWER  
-----

RESIDENTIAL	9,813	23,077,680	
		23,077,680	
	\$4.72	\$2.26	
	-----	-----	
	\$46,317.36	\$52,155.56	\$98,473
GENERAL SERVICE	4	4,240,917	
		4,240,917	
	\$4.72	\$2.71	
	-----	-----	
	\$18.88	\$11,492.89	\$11,512
			\$109,985 PER STAFF
			\$98,950 PER BOOKS
			-----
			\$11,035
			=====

**AUDIT DISCLOSURE NO. 7**

**SUBJECT: SEWER MAINTENANCE EXPENSE**

**STATEMENT OF FACTS:**

The company's books include a charge to account 6040-30 - Sewer Maintenance for \$1,285. This amount represents payment to Rapid Rooter service for main sewer line clogging and backing into the house. The blockage was a broken line under the cement patio which had to be repaired.

**AUDIT OPINION:**

Staff engineer should review this charge and determine if the repair costs are in fact utility related or if they relate to the applicable customer. This amount has not been posted to staff's NOI schedule.

**IV. STAFF PREPARED SCHEDULE**

RATE BASE - WATER  
12/31/95

	1994 RATE BASE PEIR BOOKS	1995 RATE BASE AS ADJUSTED BY CO.	STAFF ADJUSTMENTS	1995 RATE BASE AS ADJUSTED BY STAFF	AVERAGE RATE BASE PER STAFF
PLANT IN SERVICE	337,976	349,158		349,158	343,567
ACCUMULATED DEPRECIATION	(146,688)	(141,009)		(141,009)	(143,849)
CIAC		0		0	0
AMORTIZATION CIAC		0		0	0
WORKING CAPITAL					9,880
	-----	-----	-----	-----	-----
	191,288	208,149	0	208,149	199,719
	=====	=====	=====	=====	=====

RATE BASE - SEWER  
12/31/95

	1994 RATE BASE PER BOOKS	1995 RATE BASE AS ADJUSTED BY CO.	STAFF ADJUSTMENTS	1995 RATE BASE AS ADJUSTED BY STAFF	AVERAGE RATE BASE PER STAFF
PLANT IN SERVICE	386,011	389,132		389,132	387,572
ACCUMULATED DEPRECIATION	(206,065)	(212,821)		(212,821)	(209,443)
CIAC		0		0	0
AMORTIZATION CIAC		0		0	0
WORKING CAPITAL					14,911
	-----	-----	-----	-----	-----
	179,946	176,311	0	176,311	178,129
	=====	=====	=====	=====	=====

NOI - WATER  
12/31/95

	1995 AS ADJUSTED BY COMPANY -----	STAFF ADJUSTMENTS -----	1995 NOI ADJUSTED BY STAFF -----
REVENUES	104,657	12,399 D1,D6	117,056
OPERATING AND MAINTENANCE	84,454	(5,413)E1,E2,E3,E4,D3,D4,D5	79,041
DEPRECIATION	10,255		10,255
TAXES OTHER THAN INCOME	4,735	546 D6	5,281
	-----	-----	-----
	5,214	17,266	22,479
	=====	=====	=====

NOI - SEWER  
12/31/95

	1995 AS ADJUSTED BY COMPANY -----	STAFF ADJUSTMENTS -----	1995 NOI ADJUSTED BY STAFF -----
REVENUES	98,949	11,034 D6	109,983
OPERATING AND MAINTENANCE	124,908	(5,621)E1,E2,E3,E4,D2,D3,D4	119,287
DEPRECIATION	11,669		11,669
TAXES OTHER THAN INCOME	4,478	497 D6	4,975
	----- (42,106) =====	----- 16,158 =====	----- (25,948) =====

EXCEPTION 1 - E1

NON UTILITY EXPENSE	\$1,930.76	
ACCT 6040 - SEWER MAINT		\$1,180.14
ACCT 6050 - LAWN & COMMON MAINT - WATER		\$375.31
ACCT 6050 - LAWN & COMMON MAINT - SEWER		\$375.31

EXCEPTION 2 - E2

WATER REPAIR MAINT	\$244.26	
ACCT 6040 - SEWER MAINT		\$244.26

EXCEPTION 3 - E3

DUE FROM MHC	\$247.00	
ACCT 6445 - LEGAL - WATER		\$123.50
ACCT 6445 - LEGAL - SEWER		\$123.50

EXCEPTION 4 - E4

NON UTILITY EXPENSE	\$2,376.05	
ACCT 6040 - SEWER MAINT		\$872.50
ACCT 6100 - WATER		\$752.00
ACCT 6100 - SEWER		\$752.00

DISCLOSURE 1 - D1

DUE FROM MHC	\$271.55	
WATER REVENUES		\$271.55

DISCLOSURE 2 - D2

ACCT 6040 - SEWER MAINT	\$1,590.00	
ACCOUNTS PAYABLE		\$1,590.00

DISCLOSURE 3 - D3

NON UTILITY EXPENSE	\$6,506.32	
ACCT 6110 CLERICAL - WATER		\$3,253.16
ACCT 6110 CLERICAL - SEWER		\$3,253.16



DISCLOSURE 4 - D4

NON UTILITY EXPENSE	\$820.00	
ACCT 6620 MANAGEMENT FEE - WATER		\$410.00
ACCT 6620 MANAGEMENT FEE - SEWER		\$410.00

DISCLOSURE 5 - D5

RETAINED EARNINGS	\$743.00	
ACCT 6330 - PURCHASED WATER		\$743.00

DISCLOSURE 6 - D6

ACCOUNTS RECEIVABLE	\$23,161.00	
REVENUES - WATER		\$12,127.00
REVENUES - SEWER		\$11,034.00
TAXES OTHER THAN INCOME - WATER	\$546.00	
TAXES OTHER THAN INCOME - SEWER	\$497.00	
PAYABLE		\$1,043.00

-----		
\$38,933	\$38,933	
=====		

COST OF CAPITAL – MANUFACTURED HOME COMMUNITIES, INC.

COMPONENTS	1995	1994	AVERAGE	WEIGHTED COST	COST RATE	WEIGHTED COST RATE
<b>AMOUNTS IN THOUSANDS</b>						
<b>LONG TERM DEBT</b>						
Mortgage notes payable – A	100,000	100,000	100,000	45.60%	6.9875%	3.1860%
First Mortgage loan	8,767	8,893	8,830	4.03%	7.4000%	0.2979%
Purchase money note	1,516	1,516	1,516	0.69%	7.3800%	0.0510%
First Mortgage loan	24,859	25,137	24,998	11.40%	7.4800%	0.8526%
First Mortgage loan	63,924	64,724	64,324	29.33%	8.0000%	2.3463%
Line of Credit – B	12,900	26,400	19,650	8.96%	7.9375%	0.7112%
<b>LONG TERM DEBT</b>	<b>211,966</b>	<b>226,670</b>	<b>219,318</b>	<b>100.00%</b>		<b>7.45%</b>
<b>LONG TERM DEBT</b>	<b>211,966</b>	<b>226,670</b>	<b>219,318</b>	<b>44.93%</b>	<b>7.45%</b>	<b>3.35%</b>
<b>EQUITY – C</b>	<b>263,065</b>	<b>274,652</b>	<b>268,859</b>	<b>55.07%</b>	<b>11.10%</b>	<b>6.11%</b>
<b>CUSTOMER DEPOSITS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>		<b>0.00%</b>
<b>DEFERRED TAXES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>		<b>0.00%</b>
	<b>475,031</b>	<b>501,322</b>	<b>488,177</b>	<b>100.00%</b>		<b>9.46%</b>

NOTE A – \$100 MILLION MTG LOAN IS LIBOR PLUS 1.05% OR 6.9875  
LIBOR – 5.9375

NOTE B – LINE OF CREDIT IS LIBOR PLUS 2.00% – OR 7.9375

NOTE C – TOTAL STOCKHOLDERS EQUITY LESS EMPLOYEE NOTES  
RATE – PER ORDER PSC950982F0FWS – 8/10/95

$$9.05\% + 1.131/\text{EQUITY RATIO } (.5507) = 11.10375$$

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

May 13, 1996

Tom Keenan  
Colonies Water Company  
6603 Colonial Drive  
Margate, Florida 33063-5544

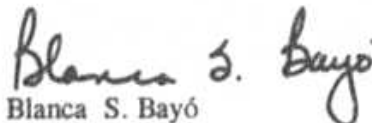
RE: Docket No. 960132-WS -- Colonies Water Company  
Staff-assisted Rate Case Audit Report - Period Ended December 31, 1995  
Audit Control #96-051-4-2

Dear Mr. Keenan:

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,

  
Blanca S. Bayo

BSB/mas  
Enclosure  
cc: Public Counsel  
Rose Law Firm