

FLORIDA PUBLIC SERVICE COMMISSION

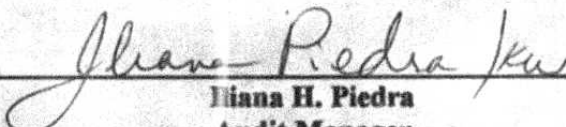
AUDIT REPORT

12 MONTHS ENDED DECEMBER 31, 1996

**Field Work Completed
February 13, 1997**

**SPRING CREEK VILLAGE UTILITIES, LTD.
Bonita Springs, Florida
Lee County**

**Staff Assisted Rate Case Audit
Docket Number 961447-WU
Audit Control Number 97-014-4-1**



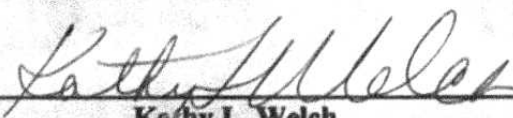
**Diana H. Piedra
Audit Manager**

Audit Staff

Minority Opinion

Yen Ngo

YES Y NO



**Kathy L. Welch
District Audit Supervisor
Miami**

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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, 1996 for Spring Creek Village Utilities Petition for staff assisted rate case, FPSC Docket 961447-WU.

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 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.

Opinion: The schedules of Rate Base, Net Operating Income and Capital Structure represent Spring Creek Village Utilities' 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, the following definitions shall apply.

COMPILED - 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 noted, performed no other audit work.

EXAMINED - 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, irregularity, or inconsistency observed.

RATE BASE: Examined some invoices for water plant additions. Staff auditor requested that the staff engineer perform an original cost study due to the lack of source documentation.

Compiled the following for engineer's review: Various journal entries booked from 1973-1976, a contract with Coral Coast Construction dated 6/20/73, some invoices from Nelson's for 1976, various meter invoices and plant invoices that staff could not find recorded on the books.

Prepared possible proformas based on work completed in 1997 and proposals received.

Obtained recorded deeds from the County courthouse to determine original cost of land when it was dedicated to public use. Obtained company's ownership affidavit.

Obtained tax returns and reconciled total Building and other Depreciable Property to total plant per company's depreciation schedule. Compiled a schedule of hook up fees by year. Read tariff, company's purchase agreement and property offering for service availability policy. Obtained company's representation letter for CIAC.

Calculated working capital allowance as 1/8 of total Operating and Maintenance expenses.

NET OPERATING INCOME: Prepared a billing analysis; calculated revenues and regulatory assessment fee. Examined selected bills.

Examined expenses based on a judgmental sample. Recalculated direct payroll expense, group insurance and general insurance; computed a management fee from Flordeco. Examined all water chemical and all electric expenses.

COST OF CAPITAL: Determined the equity cost rate for the utility using FPSC Order PSC 96-0729-fof-ws dated 5/31/96.

III. AUDIT EXCEPTIONS

AUDIT EXCEPTION NO. 1

SUBJECT: PLANT IN SERVICE

STATEMENT OF FACTS:

The company's books reflect a balance of \$92,087.44 for the water plant as of 12/31/96. The 1995 annual report indicates total plant in service to be \$181,309.34. This total includes water plant, lines, services, meters, hydrants and miscellaneous.

AUDIT OPINION:

The company provided some invoices totaling \$29,393.91 and some journal entries totaling \$31,566.94 booked from 1973 - 1976. The journal entries had cash disbursements attached, but no detail explanations. This documentation provided relates to the water plant account recorded on the books. The books do not reflect balances for lines, services, meters ..etc.

Due to the lack of source documentation, staff engineer is performing an original cost study.

Depreciation was not calculated since plant records are not complete.

Staff auditor was provided with work that has been completed in 1997 and proposals the company has obtained. These proformas are as follows:

Work Completed-	1/9/97	Metro Electric	7 ½ HP Pump	\$1,971.68
	1/7/97	Rent All & Sales	Air compressor	\$1,218.50

Proposals-

1/21/97	Dennis Waltchack	2 additional pumps	\$3,943.36
1/20/97	Custom Aluminum	Roof, screens, Roof on Aerator	\$5,250.00
6/26/96	Pro Electric	Electrical work	<u>\$6,310.00</u>
	Original proposal for \$18,300, \$11,990 has been paid to date		\$18,693.54

AUDIT EXCEPTION NO. 2

SUBJECT: CONTRIBUTIONS IN AID OF CONSTRUCTION

STATEMENT OF FACT:

The company's books do not show a balance for CIAC. The 1995 annual report shows a balance of \$45,612.50 for water CIAC. The annual reports show this balance since 1987.

The company's old general ledger account - Utility hook up reimbursement - indicates that from 1979 to 1987 the utility received \$105,000. This represents fees for 175 hook ups at the \$600 fee which is allocated \$200 each for water, sewer and electric per the purchase agreements. The amount that pertains to the water utility is \$35,000. The hook up fees received prior to 1979 were not included in this account.

AUDIT OPINION:

Staff auditor imputed CIAC using the set fee of \$200 and the number of hook ups from 1975 to present. The imputed amount totals \$61,600. See the following page.

The company's books do not reflect any plant in service balances for the distribution lines which are usually contributed property. The staff engineer will perform an original cost study and determine what the cost of the lines should be. Per Order No. 11181, dated 9/21/82 "where a utility's water and sewer system could only be documented through the use of an original cost study and the system consisted of distribution and collection mains only, the Commission imputed a level of CIAC equal to 75% of plant in service per the original cost study".

The depreciable plant per the tax returns was reconciled with plant in service per the company's books, no differences appear. However, the books only recorded plant of \$92,087 which did not include lines.

Since depreciation expense was not calculated due to incomplete plant records, the composite rate to be used to amortize CIAC was not available.

	CUSTOMERS PER YEAR	FEE	TOTAL
1975	63	\$200.00	12,600
1976	10	\$200.00	2,000
1977	16	\$200.00	3,200
1978	25	\$200.00	5,000
1979	26	\$200.00	5,200
1980	26	\$200.00	5,200
1981	33	\$200.00	6,600
1982	21	\$200.00	4,200
1983	25	\$200.00	5,000
1984	24	\$200.00	4,800
1985	20	\$200.00	4,000
1986	10	\$200.00	2,000
1987	9	\$200.00	1,800
1988	0	\$200.00	0
1989	0	\$200.00	0
1990	0	\$200.00	0
1991	0	\$200.00	0
1992	0	\$200.00	0
1993	0	\$200.00	0
1994	0	\$200.00	0
1995	0	\$200.00	0
	<u>308</u>		<u>61,600</u>
	=====		=====

Includes amount for the 5 meters that are disclosed in Exception No. 4.

AUDIT EXCEPTION NO. 3

SUBJECT: LAND

STATEMENT OF FACT:

The company's books reflect a balance of \$47,379.11 for Land - Utilities and Recreation. The company indicated they did not know the original cost of the land where the water plant is located.

The company indicated that the Spring Creek Village, Ltd is the full owner of the property on which all facilities are located, a separate utility company does not exist.

Per Order No. 13796, "The...treatment plant is located on land which is not owned by the Utility, but by...an affiliated company. In order to guarantee the continued use of the land by the Utility, and to preserve continuous service to customers, the Utility must submit a proposed agreement for long-term lease (99 years or longer) within 60 days from the date of the order.", Tamiami Utility Company, Docket No. 830558-WS.

AUDIT OPINION:

Audit Staff obtained the deed for the land but could not determine acreage. Therefore, the staff engineer is calculating the original cost of the land and the land applicable to the water utility.

AUDIT EXCEPTION NO. 4

SUBJECT: REVENUES NOT CHARGED BY UTILITY

STATEMENT OF FACTS:

The utility company did not bill Bonita Springs Utility, the sewer utility, for the water used at their lift station. Also, the mobile home division, Spring Creek Village, was not billed for the water used at the swimming pool, boat davits, boat ramp and recreation hall.

AUDIT OPINION:

Staff computed the revenues for the above by using the monthly usage sheets provided by the company. The revenues total \$435.59. See the following page for the calculations.

0-
3001-
7000 -

3000
7000
OVER

BILLS

36
1
24

60

\$4.00

BASE CHARGE

\$240.00

REVENUE FOR 3000-7000
OVER 7000

\$0.17
\$195.42

\$435.59

GALLONS	LESS BASE GALLONAGE	NET GALLONS	RATE PER 1000	REVENUE
18,450				
3,200	3,000	200	\$0.85	0.17
397,700	72,000	325,700	\$0.60	195.42
<hr/> 419,350				<hr/>

TOTAL 1996

BILLS

CUMULATIVE
BILLS

GALLONS

CUMULATIVE
GALLONS

0-	999	29	29	9670	9670
1000-	1999	6	35	8780	18450
2000-	2999		35		18450
3000-	3999	1	36	3200	21650
4000-	4999		36		21650
5000-	5999		36		21650
6000-	6999		36		21650
7000-	7999		36		21650
8000-	8999	1	37	8200	29850
9000-	9999		37		29850
10000-	10999	2	39	20600	50450
11000-	11999	1	40	11000	61450
12000-	12999	1	41	12000	73450
13000-	13999	2	43	27400	100850
14000-	14999		43		100850
15000-	15999	2	45	30900	131750
16000-	16999	5	50	80000	211750
17000-	17999	3	53	51800	263550
18000-	18999	2	55	36700	300250
19000-	19999	2	57	38000	338250
20000-	20999		57		338250
21000-	21999		57		338250
22000-	22999		57		338250
23000-	23999		57		338250
24000-	24999	1	58	24900	363150
25000-	25999		58		363150
26000-	26999	1	59	26900	390050
27000-	27999		59		390050
28000-	28999		59		390050
29000-	29999	1	60	29300	419350

AUDIT EXCEPTION NO. 5

SUBJECT: PAYROLL EXPENSE

STATEMENT OF FACTS:

The company's books reflect \$16,714.03 for salaries and \$1,512.17 for payroll taxes. These charges relate to

Dennis Waltchack	Park Manager
Richard Wagner	Full time maintenance
Peter Haley	Part time maintenance
Betty Haley	Bookkeeper/secretary

AUDIT OPINION:

Staff auditor estimated the payroll charges for 1996 using the salaries per the W-2 Forms and the hours applicable to the utility for the above employees. The company indicated the following utility related hours for the employees:

Dennis Waltchack	20 hours per week	\$11,804
Richard Wagner	15 hours per week	\$ 5,343
Peter Haley	4 hours per week - weekends	\$ 1,302
Betty Haley	8 hours per week	<u>\$ 1,995</u>
		\$20,444

3% increase \$21,057

Per books \$16,714

Difference \$ 4,343

PAYROLL TAXES

\$21,057 * 8.55%	\$ 1,800
Per books	<u>\$ 1,512</u>
Difference	\$ 288

Per the above calculations Payroll and Payroll taxes should be increased by \$4,343

and \$288, respectively. The staff engineer should review the hours related to the utility for the Park Manager and the Full time maintenance employee to determine if they are reasonable.

Also, the Park Manager receives the benefit of driving a company automobile. The insurance expense for this is allocated in Account 7100, See Exception No. 7. Account 6040 - Auto Expenses includes allocations for the related expenses and gasoline charges.

These charges are in addition to an operator charge of \$225 a month from Clark Environmental.

AUDIT EXCEPTION NO. 6

SUBJECT: OFFICE EXPENSES

STATEMENT OF FACTS:

The company's books reflect \$258.78 in the account.

AUDIT OPINION:

Staff auditor determined the total balance to be \$494.26.

Postage	\$ 243.20	
Billing Cards	\$ 52.53	Press Press Printing
Copier Lease	\$ 106.00	Accent Business
Office Supplies	\$ 13.75	Reimbursement
Office Supplies	<u>\$ 78.78</u>	Reimbursement
	\$ 494.26	

The postage was estimated by using number of customers times the postage rate. The postage, billing cards and copier lease were allocated 1/3 to the utility by using number of customer allocation (water, sewer, mobile park).

The account should be increase by \$235.48.

AUDIT EXCEPTION NO. 7

SUBJECT: INSURANCE GENERAL

STATEMENT OF FACTS:

The company's books reflect \$581.73 for insurance related to commercial property and workers compensation.

AUDIT OPINION:

Staff auditor determined the total estimate for commercial property, workers compensation and auto insurance to be \$1,184.68.

Commercial Property	Sedgwick	4/96-3/97	\$275.00
Workers Compensation	Sedgwick		\$272.45
Auto Insurance	Sedgwick	10/96-3/97	<u>\$637.23</u>
			\$1,184.68

The Workers Compensation was calculated using the salaries staff auditor determined applicable to the utility times the rates per the company's schedule. The auto insurance was allocated 50% since Mr. Dennis Waltchack's time is allocated 50% to the utility.

The account should be increased by \$602.95.

AUDIT EXCEPTION NO. 8

SUBJECT: CHEMICALS

STATEMENT OF FACTS:

Per account 7290 Water Plant Chemicals, the entry recorded on 7/31/96 was incorrect. The company had debited the cost of \$272.20 to account 7290 and incorrectly allocated an additional 117.22 again.

Date	Reference	Description	Debit Amount	Credit Amount
7/31/96	CE2	Allocated to Division	\$272.00	
7/31/96	CE3	Reallocated Expenses	\$117.22	
7/31/96	CE3	Reallocated Expenses		\$154.98
		TOTAL	\$389.42	\$154.98

AUDIT OPINION:

The recording of the above entries overstated the account by \$117.22

AUDIT EXCEPTION NO. 9

SUBJECT: REAL ESTATE TAXES

STATEMENT OF FACTS:

The company did not record any real estate taxes for the land related to the water plant.

AUDIT OPINION:

The tax bills indicate a total of \$1,410.33 related Tract D and lot 114.

Tract D	\$1,268.94
Lot 114	<u>\$ 141.39</u>
	\$1,410.33

Staff engineer is doing an audit of the land. This amount needs to be adjusted to conform with the engineer's findings.

AUDIT EXCEPTION NO. 10

SUBJECT: GROUP INSURANCE

STATEMENT OF FACTS:

The company's books reflect \$802.21 for Group Insurance.

AUDIT OPINION:

Staff calculated the amount to be \$1,360.68 by using the amount of the December bill from Florida Employers Life Insurance Corporation and applying the applicable allocation factor for Mr. Dennis Waltchack.

Medical Insurance		\$215.68
Life Insurance		<u>\$ 11.10</u>
		\$226.78
Times 12 months	\$2,721.36	
50% of hours spent on water utility	\$1,360.68	
Per books	<u>\$ 802.21</u>	
Difference	<u>\$558.47</u>	

The Group Insurance account should be increased by \$558.47. The staff engineer should determine if it appears that 50% of the time is spent on utility business.

AUDIT EXCEPTION NO. 11

SUBJECT: SUPPLIES - METERS ACCOUNT

STATEMENT OF FACTS:

The company recorded an invoice from Davis Water & Waste Industries, Inc. for \$522.79. This is for the purchase of meters

AUDIT OPINION:

The amount is not an expense, it should be removed from expenses and capitalized.

IV. AUDIT DISCLOSURES

AUDIT DISCLOSURE NO. 1

SUBJECT: MANAGEMENT FEE

STATEMENT OF FACTS:

The company has included expenses for Accounting fees in Account 6000 for \$2,997 and a Management Incentive Fee in Account 7155 for \$1,872.

AUDIT OPINION:

Staff prepared an estimate of the payroll and benefits related to the controller and the bookkeeper and applied the time spent on Spring Creek. The total amount is \$6,749.74. Expenses should be increased by \$1,880.74 to reflect a more accurate management fee. See the following page for staff's calculations.

CONTROLLER - 16 HOURS PER MONTH - \$16.23 /HR	259.68
12 MONTHS	3,116.16
ESTIMATED 3% INCREASE	3,209.64

BENEFITS	PER MONTH	252.63
	12 MONTHS	3,031.56
	10% ALLOCATION	303.16

BOOKKEEPER - 26 HOURS PER MONTH - \$9 /HR	234.00
12 MONTHS	2,808.00
ESTIMATED 3% INCREASE	2,892.24

BENEFITS	PER MONTH	179.53
	12 MONTHS	2,154.36
	16% ALLOCATION	344.70

TOTAL PAYROLL AND BENEFITS ALLOCATION	6,749.74
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TOTAL PER COMPANY	ACCOUNT 6000	2,997.00
	ACCOUNT 7155	1,872.00

		<hr/>
		4,869.00

DIFFERENCE - INCREASE	1,880.74
	<hr/> <hr/>

AUDIT DISCLOSURE NO. 2

SUBJECT: RATE CASE EXPENSE

STATEMENT OF FACTS:

The company recorded the rate case expenses in the total amount of \$2794.25 in account 7190 Professional Services. According to Order No. 13366, rate case expense should be amortized over a four year period. This is more appropriate and more in line with the past experience of the utility. Deltona Utilities, Docket No. 830282-WS.

Date	Vendor	Description	Amount
12/96	Rose, Sundstrom, & Ben	Staff Assisted Rate Case	\$1,442.25
12/96	Golberg & Goldstein	Water Utility Rate Increase	\$507.00
12/96	Hagen & Palen CPA's	Update Depreciation Schedule	\$415.00
12/96	Avalon Engineering	Prepare Application for Rate Case	<u>\$430.00</u>
		TOTAL	<u>\$2,794.25</u>

AUDIT OPINION:

Because rate case expenses are not amortized, the expenses are overstated.

V. EXHIBITS

RATE RASE
12/31.96

	1995 RATE BASE PER BOOKS	1996 RATE BASE PER BOOKS	STAFF ADJUSTMENTS	1996 RATE BASE AS ADJT BY STAFF	AVERAGE RATE BASE PER STAFF
PLANT IN SERVICE	73,802	92,087	19,216 E-1,E11	111,304	92,553
ACCUMULATED DEPRECIATION	(67,510)	(70,083)		(70,083)	(68,797)
CIAC	0	0	(61,800) E-2	(61,800)	(61,800)
AMORTIZATION CIAC	0	0		0	0
WORKING CAPITAL			5,952 1/8 of O&M	5,952	5,952
	<u>6,292</u>	<u>22,004</u>	<u>(36,632)</u>	<u>(14,626)</u>	<u>(4,168)</u>
	=====	=====	=====	=====	=====

NET OPERATING INCOME
12/31/96

	1996 AS ADJUSTED BY COMPANY	STAFF ADJUSTMENTS	1996 NOI ADJUSTED BY STAFF
REVENUES	16,656	435.59 E-4	17,091
OPERATING AND MAINTENANCE DEPRECIATION	40,632 3,577	6,980.63 E5,E6,E7,E8,E10,E11,D1	47,612 3,577
TAXES OTHER THAN INCOME	2,258	288.00 E-5	2,546
	<u>(29,811)</u>	<u>(6,833.04)</u>	<u>(36,644)</u>

	DESCRIPTION	DEBIT	CREDIT
E-1	Plant in Service Accounts payable Audit Exception No. 1	\$18,693.54	\$18,693.54
E-2	Retained Earnings CIAC Audit Exception No. 2	\$61,800.00	\$61,800.00
E-3	Staff Engineer will adjust Audit Exception No. 3		
E-4	Accounts Receivable Water Revenues Audit Exception No. 4	\$435.59	\$435.59
E-5	Payroll Payroll Taxes Payable Audit Exception No. 5	\$4,343.00 \$288.00	\$4,631.00
E-6	Office Expenses Payable Audit Exception No. 6	\$235.48	\$235.48
E-7	Insurance General Payable Audit Exception No. 7	\$602.95	\$602.95
E-8	Payable Chemical Expense Audit Exception No. 8	\$117.22	\$117.22
E-9	Real Estate Taxes adjustment pending on Adjustment for Exception No. 3		
E-10	Group Insurance Payable Audit Exception No. 10	\$558.47	\$558.47
E-11	Plant in Service Meters Supplies Expense Audit Exception No. 11	\$522.79	\$522.79

D-1

Management Fee
Payable
Audit Disclosure No. 12

\$1,880.74

\$1,880.74

D-2

Analyst will determine if the amortization
of Rate Case Expense is allowed for a
staff assisted case.

=====

\$89,477.78 \$89,477.78

=====

COST OF CAPITAL
12/31/96

No debt is present on the company's books, therefore, staff is using the authorized return on common equity per PSC Order 96-0729-FOF-WS, dated, 5/31/96. Since the equity ratio is 100%, the lower range of the authorized range per the order is used.

TOTAL RETURN ON COMMON EQUITY SHOULD BE 10.18%.

State of Florida

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JULIA L. JOHNSON
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JOE GARCIA



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

Public Service Commission

March 13, 1997

Mr. Dennis M. Waltchack
Spring Creek Village Utilities, Ltd.
4501 Spring Creek Road, Box 1
Bonita Springs, Florida 33923-7133

RE: Docket No. 961447-WU -- Spring Creek Village Utilities, Ltd.
Staff-assisted Rate Case Audit Report
Audit Control # 97-014-4-1

Dear Mr. Waltchack:

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, appearing to read "Kay Flynn".

Kay Flynn, Chief
Bureau of Records

KF/clc
Enclosure
cc: Public Counsel