

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

12 MONTHS ENDED JUNE 30, 1997

FIELD WORK COMPLETED

AUGUST 22, 1997

PARADISE LAKES UTILITY, LTD.

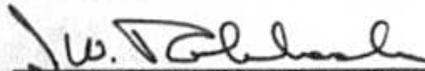
LAND O'LAKES, FLORIDA

PASCO COUNTY

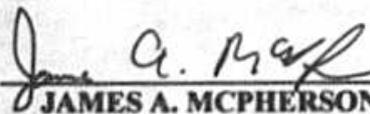
STAFF ASSISTED RATE CASE AUDIT

DOCKET NO. 970633-WS

AUDIT CONTROL NUMBER 97-189-2-1



**JOSEPH W. ROHRBACHER
AUDIT MANAGER**



**JAMES A. MCPHERSON
REGULATORY ANALYST SUPERVISOR**

DOCUMENT NUMBER-DATE
08979 SEP-85
FPSC-RECORDS/REPORTING

INDEX

I. EXECUTIVE SUMMARY:

Audit Purpose.....	3
Disclaim Public Use.....	3
Opinion.....	3
Summary Findings.....	3

II. AUDIT SCOPE:

Scope of Work Performed.....	4
------------------------------	---

III. DISCLOSURES:

1. Wastewater Plant In Service/Depreciation.....	5
2. Contributions In Aid Construction.....	7
3. Operation & Maintenance Expense.....	8
4. Other Adjustments.....	9

V. AUDITOR PREPARED EXHIBITS:

Water Rate Base.....	10
Sewer Rate Base.....	11
Water Net Operating Income.....	12
Sewer Net Operating Income.....	13
Capital Structure.....	14

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 June 30, 1997 for the Paradise Lakes Utility, LTD. petition for staff assisted rate case, FPSC Docket 970633-WS.

DISCLAIM PUBLIC USE: 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 audit 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 Paradise Lakes Utility, LTD. books and records, which were 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:

- (1) The Utility did not retire wastewater plant as established by prior Order No. PSC-95-1538-FOF-WS. Also, it did not retire plant associated with the interconnection to Pasco County for the treatment of wastewater.
- (2) The Utility did not adjust accumulated depreciation or expense for the retired wastewater plant.
- (3) Appropriate composite rates were not used for the amortization of CIAC.
- (4) The Utility did not reflect management fees established by prior Order No. PSC-95-1538-FOF-WS.
- (5) Operation and maintenance expenses were adjusted for the test year used.
- (6) Pro-forma adjustments were made to reflect the interconnection to Pasco County for wastewater treatment.

II. AUDIT SCOPE

RATE BASE: Reconciled beginning rate base to prior Order No. PSC-95-1538-FOF-WS establishing Rate Base as of December 31, 1995. Scheduled and tested 100% of plant and CIAC additions for the period 01/1/95 through 06/30/97. Computed and scheduled accumulated depreciation (plant) and accumulated amortization (CIAC) based upon staff adjusted balances for plant and CIAC using rates that were approved during prior rate proceedings for the above period. Made appropriate adjustments to same. Adjusted for the interconnect to county for wastewater treatment. Computed Working Capital at 1/8 O&M expenses.

NET OPERATING INCOME: Scheduled Net Operating Income for the test year. Recomputed revenues for the test year based on usage and FPSC tariffs. Scheduled all cash disbursements for the test year and tested all vendor invoices for correctness as determined by pre-selected attributes. Prepared pro-forma adjustments to reflect county interconnect. Recalculated Depreciation and Amortization of CIAC expenses per rule 25-30.140 since last audit. Recomputed Taxes Other Than Income for the test year.

CAPITAL STRUCTURE: Scheduled equity capital and liability account balances as of June 30, 1997.

OTHER: Prepared a working trial balance for the 12 month period ending 06/30/97. Prepared schedule of water usage and obtained copies of federal tax returns and county tariffs.

AUDIT DISCLOSURE NO. 1

SUBJECT: Wastewater Plant in Service/Depreciation

STATEMENT OF FACT: Commission Order No. PSC-95-1538-FOF-WS, issued December 13, 1995, made an adjustment of (\$109,214) to both wastewater plant and accumulated depreciation to retire plant which was used to discharge treated water to a nearby orange grove as re-use. The utility did not reflect the retirement of the reuse plant on the books. This plant is shown in Treatment & Disposal Equipment (A/C 380) and is being depreciated at 6.67% yearly.

In May of 1997 the utility was connected to Pasco County for the treatment of wastewater.

The utility books reflected a balance of \$653,843 in wastewater plant in service and \$234,086 in accumulated depreciation as of June 30, 1997.

AUDITOR OPINION: The utility has not retired the wastewater treatment plant that is no longer used due to the interconnection to the county for the treatment of wastewater. After discussion with the utility Controller and maintenance supervisor, the auditor wrote off \$136,487 to Treatment & Disposal Equipment (A/C 380) and \$16,115 to Structures & Improvements (A/C 354) to reflect retirement of plant due to the interconnection.

The costs of connecting to the county for wastewater treatment was \$201,000. The components for the new plant associated with the interconnect will be determined by FPSC staff. For the audit, the \$201,000 costs were depreciated using the yearly composite rate.

In addition, the utility capitalized a non-recurring expense of \$2,100 which was 50% of the cost for repairing a road, which is owned by the parent company, leading to the water plant and maintenance building and capitalized \$126 which should have been expensed.

Disclosure No. 1 (cont)

RECOMMENDATION: Adjust the utility records to reflect the above.

Wastewater Plant

Balance @06-30-97	\$653,843	
Retirement of re-use plant	(109,214)	
Retire plant for County hookup	(152,602)	
Adjust for non-recurring and miscoded expense	<u>(2,226)</u>	
Total adjustment		<u>(\$264,042)</u>
Balance Per Audit	<u>\$389,801</u>	

<u>Wastewater Depreciation</u>	<u>Accum Deprc</u>		<u>Deprc Expense</u>	
Balance per books @06-30-97	\$234,086		\$30,090	
Adjustment per Order	(109,214)			
Depreciation on reuse plant	(18,211)		(7,285)	
Depreciation on retired interconnect	(4,874)		(4,874)	
Differences in rates used	<u>(385)</u>		<u>(1,034)</u>	
Total adjustment		<u>(\$132,684)</u>		<u>(\$13,193)</u>
Balance per audit	<u>\$101,402</u>		<u>\$16,897</u>	

AUDIT DISCLOSURE NO. 2

SUBJECT: CONTRIBUTIONS IN AID CONSTRUCTION (CIAC)

STATEMENT OF FACT: Commission Order No. PSC-95-1538-FOF-WS, issued December 13, 1995, calculated amortization of CIAC by using the yearly composite depreciation rates.

The utility used a rate of 2.25% for water and 1.44% for wastewater for 1995 and 2.38% for water and 1.46% for wastewater in 1996 and 1997.

AUDITOR OPINION:

The utility should adjust the books to reflect CIAC amortization using the yearly composite rates. The following adjustment is needed:

<u>Wastewater</u>	<u>Accum Amortz</u>	<u>Amortz Expense</u>
Balance per books @06-30-97	\$ 7,402	\$ 829
Adjust for composite rate	<u>3,968</u>	<u>1,486</u>
Balance per audit	<u>11,370</u>	<u>2,315</u>
<u>Water</u>		
Balance per books @06-30-97	\$ 4,643	\$ 661
Adjust for composite rate	<u>1,130</u>	<u>446</u>
Balance per audit	<u>5,773</u>	<u>1,107</u>

AUDIT DISCLOSURE NO. 3

SUBJECT: OPERATION & MAINTENANCE EXPENSE

STATEMENT OF FACT: Commission Order No. PSC-95-1538-FOF-WS, issued December 13, 1995, established annual management fees for the services provided to the utility by Paradise Lakes, Inc. The fees were \$20,833 for water and \$22,295 for wastewater. The utility is presently paying \$15,096 for water and \$22,656 for wastewater in accordance with an agreement between the parties dated January 1, 1989.

In addition, the utility misclassified the recording of some payments made for O&M expenses during the test year.

AUDITOR OPINION: The utility interconnect to Pasco County for the treatment of wastewater will affect O&M expenses. The following adjustments to utility records are needed to reflect O&M expenses for the test year and proforma expenses for rate making:

	<u>Audit Adj</u>	<u>Proforma Adj</u>
<u>Water Operating Expenses</u>		
#615 Purchased Power - Out of period adjustment	(\$ 8.25)	
#630 Contractual Svcs - Reclass from Material&Supplies	1,192.50	
Reclass from Cont Svcs (WW)	775.00	
Out of period adjustment	360.00	
Adj to PSC Order & Index	5,736.00	\$ 1,167.00
#655 Insurance - Adj for change in coverage		<u>(1,580.00)</u>
	<u>\$8,055.25</u>	<u>(\$ 413.00)</u>
 <u>Wastewater Operating Expenses</u>		
#711 Sludge Removal - Out of period adjustment	\$ 390.00	
Adj for retirement WWTP		(\$4,370.00)
#715 Purchased Power - Out of period adjustment	(115.48)	
Adj for retirement WWTP		(4,352.00)
#718 Chemicals - Out of period adjustment	(104.94)	
Adj for retirement WWTP		(7,059.00)
#720 Material&Supplies-Reclass to Cont Svcs (W)	(1,192.50)	
Capitalize to Struc&Imprv	(448.09)	
#730 Contractual Svcs - Reclass to Cont Svcs (W)	(775.00)	
To expense	126.26	
Out of period adjustment	360.00	
Adj to PSC Order & Index	(360.00)	1,249.00
Adj for retirement WWTP		(5,272.00)
Reflect WW chgs from County		36,147.00
#755 Insurance - Adj for change in coverage		<u>(1,580.00)</u>
	<u>(\$ 2,119.75)</u>	<u>\$14,763.00</u>

AUDIT DISCLOSURE NO. 4

SUBJECT: OTHER ADJUSTMENTS

STATEMENT OF FACT: The utility maintains the books on a calendar year. The audit was for the test year 07-01-96 - 06-30-97.

As of 06-30-97 Notes Payable (A/C 222) had a balance of \$70,136.48; confirmation from the bank has a balance of \$70,307.35. The difference is (\$170.87). At year end the utility would adjust its records to reconcile any differences.

The utility accrues the Regulatory Assessment Fee (RAF) monthly based on prior year revenues. At year end an adjustment is made to reflect actual amounts for the year. For the test year ending 06-30-97 the books showed RAF of \$2,460.51 for the water operation and \$4,740.30 for the wastewater operation.

The RAF was recalculated using test year revenues. The recalculated RAF was \$2,730.59 for water and \$5,490.32 for wastewater operations. This resulted in an understatement on the utility books of \$270.08 and \$750.02 respectively.

AUDITOR OPINION: Increase Notes Payable by \$170.87 and RAF by \$270.08 for water and \$750.02 for wastewater to reflect the above for rate making purposes.

PARADISE LAKES UTILITY, LTD
DOCKET 970633-WS
RATE BASE - WATER
TEST PERIOD ENDED JUNE 30, 1997

DESCRIPTION	(a) BALANCE PER BOOKS @06/30/97	(b) AUDIT ADJUSTMENTS	(c) AUDITED BALANCE @06/30/97	(d) AVERAGE RATE BASE @06/30/97
UTILITY PLANT IN SERVICE	195,600		195,600	195,600
LAND	7,800		7,800	7,800
PLANT HELD FOR FUTURE USE	0		0	0
CIAC	(27,600)		(27,600)	(27,600)
CWIP	0		0	0
ACCUMULATED DEPRECIATION	(72,807)		(72,807)	(70,838)
AMORTIZATION-CIAC	4,643	1,130 D2	5,773	5,494
WORKING CAPITAL (1/8TH OF O&M EXPENSES)		4,676	4,676	4,676
TOTAL	107,635	5,806	113,441	115,133

NOTE: WORKING CAPITAL AT 1/8 AUDITOR COMPUTED O&M EXPENSES

PARADISE LAKES UTILITY, LTD
DOCKET 970633-WS
RATE BASE - SEWER
TEST PERIOD ENDED JUNE 30, 1997

DESCRIPTION	(a) BALANCE PER BOOKS @06/30/97	(b) AUDIT ADJUSTMENTS	(c) AUDITED BALANCE @06/30/97	(d) AVERAGE PLANT @06/30/97
UTILITY PLANT IN SERVICE	653,843	(264,042) D1	389,801	407,604
LAND	36,000		36,000	36,000
PLANT HELD FOR FUTURE USE	0		0	0
CIAC	(55,920)		(55,920)	(55,920)
CWIP	0		0	0
ACCUMULATED DEPRECIATION	(234,086)	132,684 D1	(101,402)	(97,448)
AMORTIZATION-CIAC	7,402	3,968 D2	11,370	10,828
WORKING CAPITAL (1/8TH OF O&M EXPENSES)		6,733	6,733	6,733
TOTAL	407,238	(120,657)	286,581	307,798

NOTE: WORKING CAPITAL AT 1/8 AUDITOR COMPUTED O&M EXPENSES

PARADISE LAKES UTILITY, LTD.
DOCKET 970633 - WS
NET OPERATING INCOME - WATER
12 MONTHS ENDED JUNE 30, 1997

DESCRIPTION	(a) BALANCE PER BOOKS ② 06/30/97	(b) AUDIT ADJUSTMENTS	(c) BALANCE PER AUDIT ② 06/30/97	(d) PRO-FORMA ADJUSTMENT	(e) ADJUSTED BALANCE
OPERATING REVENUES:	(60,680)		(60,680)		(60,680)
FLAT RATE	(44,237)				
METERED	(16,443)				
OTHER	0				
OPERATING EXPENSES:					
O&M EXPENSE	29,348	8,056 D3	37,404	(413)	36,991
DEPRECIATION EXPENSE	7,898		7,898		7,898
AMORTIZATION - CIAC	(651)	(446) D2	(1,107)		(1,107)
TAXES-OTHER	2,796	270 D4	3,066		3,066
OTHER UTILITY (AMORTZ)	166		166		166
TOTAL PROFIT (LOSS)	21,133	(7,880)	13,253	413	13,666

PARADISE LAKES UTILITY, LTD.
DOCKET 970633 - WS
NET OPERATING INCOME - SEWER
12 MONTHS ENDED JUNE 30, 1997

DESCRIPTION	(a) BALANCE PER BOOKS 06/30/97	(b) AUDIT ADJUSTMENTS	(c) BALANCE PER AUDIT 06/30/97	(d) PRO-FORMA ADJUSTMENT	(e) ADJUSTED BALANCE
OPERATING REVENUES:	(122,007)		(122,007)		(122,007)
FLAT RATE	(92,151)				
METERED	(29,856)				
OTHER	0				
OPERATING EXPENSES:					
O&M EXPENSE	55,983	(2,120) D3	53,863	14,763	68,626
DEPRECIATION EXPENSE	30,091	(13,193) D1	16,898		16,898
AMORTIZATION - CIAC	(829)	(1,486) D2	(2,315)		(2,315)
TAXES-OTHER	5,075	750 D4	5,825		5,825
OTHER UTILITY (AMORTZ)	166		166		166
TOTAL PROFIT (LOSS)	31,521	16,049	47,570	(14,763)	32,807

EXHIBIT III

PARADISE LAKES UTILITY, LTD.
DOCKET 970633 - WS
CAPITAL STRUCTURE
AS OF JUNE 30, 1997

DESCRIPTION	(a) BALANCE PER BOOKS @ 06/30/97	(b) AUDIT ADJUSTMENTS	(c) AUDITED PER BOOKS @ 06/30/97	(g) RATIO	(h) COST RATE (1)	(j) WEIGHTED COST OF CAPITAL
COMMON EQUITY (A)	395,521	0	395,521	68.46%	9.80%	6.57%
CURRENT EARNINGS (B)	27,088		27,088			
GENL PARTNERS EQUITY	362,465		362,465			
LTD PARTNERS EQUITY	5,968		5,968			
NOTES PAYABLE	50,000		50,000	8.65%	10.00%	0.87%
	20,136	171 D4	20,307	3.52%	9.50%	0.33%
INTERCOMPANY PAYABLE (C)	111,900		111,900	19.37%	0.00%	0.00%
CUSTOMER DEPOSITS	0		0			0.00%
ITC			0			0.00%
OTHER			0			0.00%
TOTAL	577,558	171	577,729	100.00%		7.77%

(A) Common Equity is the sum of the sub items listed below it.

(B) Includes earnings for period 1/1 - 6/30/97. Prior earnings reflected in Partners equity.

(C) Includes \$10,000 received 3/95 from and \$101,900 paid by Paradise Lakes, Inc. (PLI), towards the wastewater interconnection. Prior Order No. PSC-95-1538 treated amounts from PLI as a loan with zero interest to the utility.

NOTE: (1) Equity cost based on leverage formula in Order No. PSC-97-0660.

STATE OF FLORIDA

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



DIVISION OF RECORDS & REPORTING
BLANCA S. BAYÓ
DIRECTOR
(850) 413-6770

Public Service Commission

September 9, 1997

Mr. Fred Bischoff
Paradise Lakes Utility, Ltd.
Post Office Box 750
Land O'Lakes, Florida 34639-0750

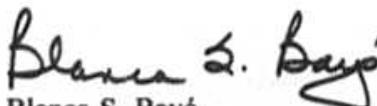
Re: Docket No. 970633-WS -- Paradise Lakes Utility, Ltd.
Staff-assisted Rate Case Audit Report
Audit Control # 97-189-2-1

Dear Mr. Bischoffi:

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. Bayó

BSB/DNV/cls
Enclosure
cc: Public Counsel