

FLORIDA PUBLIC SERVICE COMMISSION
AUDIT REPORT
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1996

Field Work Completed

October 6, 1997

HARBOR LAKES WATER SYSTEMS, INC.

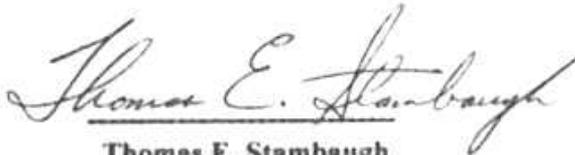
Port Charlotte, Florida

Charlotte County

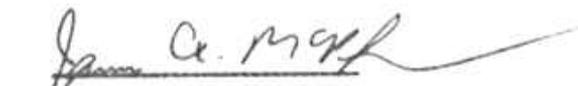
Certificate Transfer Audit

Docket No. 970762-WU

Audit Control Number 97-218-2-2



Thomas E. Stambaugh
Audit Manager



James A. McPherson
Regulatory Analyst Supervisor

DOCUMENT NUMBER-DATE

10962 OCT 23 97

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 audit the appended schedule of Rate Base in support of Docket 970762-WU, Certificate Transfer, for Harbor Lakes Water Systems, Inc., as of November 30, 1996. The rate base schedule is updated from the November 30, 1996 closure date to a calendar year-end closing at December 31, 1996. The last day of field work was September 26, 1997.

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 appended exhibit for Harbor Lakes Water Systems, Inc., prepared by Regulatory Consultants, Inc., as of November 30, 1996, represents Utility 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.

Summary Findings:

No rate base was set by Charlotte County in any previous rate proceeding.

The Utility was sold to NHC Utilities effective 11/30/96. The balances of rate base were audited as of that date and were advanced one month to 12/31/96 in order to provide a calendar-year end date.

Plant property valued at \$1,842 was added by auditor to plant in service.

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: Analyzed net rate base calculated by the Utility consultant, Regulatory Consultants, Inc. (RCI). Analyzed supporting documentation for plant additions and retirements. Analyzed accumulated depreciation. Analyzed Contributions In Aid of Construction (CIAC). Calculated amortization of CIAC. Brought all rate base balances forward to 12/31/96. Reconciled rate base between the general ledger and the RCI presentation.

OTHER: Performed analytical review of rate base balances in annual report compared to rate case consultant as a part of assessing the level of audit risk and as a guide to audit investigation of rate base balances.

AUDIT DISCLOSURE NO. 1

SUBJECT: Plant In Service

STATEMENT OF FACT: The 1996 annual report balance of plant in service was \$804,224. The Utility's Certificate Transfer application prepared by Regulatory Consultants, Inc., (RCI) presented a plant in service total of \$559,829. General ledgers support the annual report plant balance.

AUDIT OPINION: The Utility is a water system only. However, it paid for construction of wastewater lines connecting its customers to an adjoining wastewater utility. These lines cost \$118,468 and should be treated as non-Utility assets. Additionally, \$125,927 of plant additions could not be supported by invoices or cancelled checks. A review of 1996 expenditures revealed that a computer and printer costing \$1,842 had been expensed. This office equipment should be added to plant in service.

	<u>Amounts</u>	<u>Totals</u>
Plant in Service per Gen. Ledger:		\$804,224
Remove Non-Water Assets:	(\$118,468)	
Remove unsupported transactions:	<u>(\$125,927)</u>	
Total of Differences		<u>(\$244,395)</u>
Plant in Service per RCI:		\$559,829
Audit Adjustment:		<u>\$1,842</u>
Balance per Audit @ 11/30/96 and 12/31/96:		<u>\$561,671</u>

CONCLUSION: No additions to Plant in Service were made during December, 1996. Therefore, the balance of Plant in Service as of 11/30/96 and 12/31/96 should be \$561,671.00. The purchaser, NHC Utilities, as of the closing date, should have recorded the following utility plant additions.

<u>Acct #</u>	<u>Account Title</u>	<u>Amount</u>
302	Franchise Costs	8,065
309	Supply Mains (Line Const)	216,776
309	Supply Mains (Master Meter)	3,276
320	Treatment Plant (Capy. Fees)	155,412
330	Water Trans/Distr Lines	129,830
333	Services	33,275
335	Hydrants	9,935
340	Other Plant-Office Equip	<u>3,260</u>
	Total per RCI	559,829
340	Office Equip-Computers(Audit Adj)	<u>1,842</u>
	Total per Audit	<u>561,671</u>

AUDIT DISCLOSURE NO. 2

SUBJECT: Accumulated Depreciation

STATEMENT OF FACT: The Utility stated the balance of accumulated depreciation in its 1996 annual report to be \$379,333. The Utility also showed the use of double declining-balance and Accelerated Cost Recovery System depreciation methods. The certificate application preparer, Regulatory Consultants, Inc., (RCI), used straight-line depreciation methods in its calculation of accumulated depreciation for the Utility rate base. RCI also used a balance of plant in service which was net of non-water utility plant and unsupported transactions, (See Audit Disclosure No. 1)

AUDIT OPINION: Accumulated Depreciation at 11/30/96 should be increased by \$154 to account for the depreciation of additional plant assets described in Audit Disclosure No. 1. An additional month of depreciation expense of \$1,527 would be required to adjust the balance to year-end.

	Amount
<u>Adjustments:</u>	<u>(Dr) Cr</u>
Balance of Accum. Depr. Per Annual Report:	\$379,333
Adjustment to depreciation by RCI:	<u>(\$207,731)</u>
Balance of Accum. Depr @11/30/96 per Filing:	\$171,602
Depreciation on additional plant:	<u>154</u>
Audited Amount of Accum. Depr. @ 11/30/96:	\$171,756
Depreciation Expense for December, 1996:	<u>1,527</u>
Audited balance @ 12/31/96:	<u>\$173,283</u>

AUDIT CONCLUSION: The balance of Accumulated Depreciation as of 12/31/96 should be \$173,283.

AUDIT DISCLOSURE NO. 3

SUBJECT: Contributions In Aid of Construction (CIAC).

STATEMENT OF FACT: CIAC was not included in the Utility's 1996 annual report. Regulatory Consultants Inc., (RCI) included (\$102,221) as CIAC in the Utility rate base. RCI also calculated CIAC amortization of \$16,157 at 11/30/96.

AUDIT OPINION: Auditor documented and tested the agreements and amounts supporting the balance of CIAC and found them to be reasonable. Auditor recalculated CIAC amortization and found it to be accurate. Auditor also carried CIAC amortization forward to 12/31/96 to provide a calendar-year ending balance of \$16,460, or an addition of \$303 to the amortization balance.

AUDIT CONCLUSION: The balance of CIAC and its amortization as of 12/31/96 should be (\$102,221) and \$16,460 respectively.

Harbor Lakes Water Systems-Dkt 970762-WU
 Certificate Transfer Audit
 Rate Base at Time of Transfer
 As of 11/30/96 and 12/31/96

As of 12/31/96: Rate Base Component	Balance per Annual Report	Adjustments from Report to Filing	Balance per Filing @ 11/30/96	Audit Adjust. Ref.	Audit Adjustments	Balance per Audit @ 11/30/96	Year End Adjustments	Balance per Audit @ 12/31/96
Plant in Service	804,224	(244,395)	559,829	D-1	1,842	561,671	0	561,671
Land	0	0	0		0	0	0	0
CWIP	0	0	0		0	0	0	0
Accum Depr	(379,333)	207,731	(171,602)	D-2	(154)	(171,756)	(1,527)	(173,283)
CIAC	0	(102,221)	(102,221)	D-3	0	(102,221)	0	(102,221)
CIAC Amort	0	16,157	16,157	D-3	0	16,157	303	16,460
Work. Cap. (1)	0	0	0		0	0	0	0
Total	424,891	(122,728)	302,163		1,688	303,851	(1,224)	302,627

Required Footnotes:

(1) Working Capital is not required in a Certificate Transfer audit

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. BAYO
DIRECTOR
(850) 413-6770

Public Service Commission

October 24, 1997

Mr. Ed Maslanka
Harbor Lakes Water Systems, Inc.
Post Office Box 27088
Ei Jobean, Florida 33927-7088

Re: Docket No. 970762-WU -- Harbor Lakes Water Systems, Inc.
Certificate Transfer Audit Report - Period Ended December 31, 1997
Audit Control # 97-218-2-2

Dear Mr. Maslanka:

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/clb
Enclosure
cc: Public Counsel
Regulatory Consultants, Inc.