

M E M O R A N D U M

April 15, 1998

TO: DIVISION OF RECORDS AND REPORTING

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

RE: DOCKET NO. 971220-WS -- CYPRESS LAKES ASSOCIATES, LTD.
AUDIT REPORT - TRANSFER
AUDIT CONTROL NO. 97-311-3-1

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 audit report to:

Cypress Lakes Associates, Ltd.
Fred Babb
10000 North U. S. Highway #98
Lakeland, FL 33809-8031

DNV/sp

Attachment

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

Research and Regulatory Review (Harvey)
Office of Public Counsel

DOCUMENT NUMBER-DATE
04373 APR 16 88
FPSD-RECORDS/REPORTING

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FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING***

Orlando District Office

CYPRESS LAKES ASSOCIATES, LTD.

CERTIFICATE OF TRANSFER AUDIT

PERIOD ENDED DECEMBER 31, 1997

**DOCKET NO. 971220-WS
AUDIT CONTROL NO. 97-311-3-1**

Jeffery A. Small, Audit Manager

Ian J. Forbes, District Audit Supervisor

DOCUMENT NUMBER-DATE

04373 APR 16 88

FPSC-RECORDS/REPORTING

**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT**

APRIL 6, 1997

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare a schedule of Rate Base as of December 31, 1997, for Cypress Lakes Associates, Ltd. These schedules were prepared by audit staff as part of the company's application for Certificate of Transfer in Docket No. 971220-WS. There is no confidential information associated with this audit.

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 work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

In our opinion, the auditor-prepared schedules referred to above present fairly, in all material respects, the company's books and records, which were not maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

SUMMARY OF SIGNIFICANT FINDINGS

The company does not maintain its books and records as required by the Uniform System of Accounts and Commission rules.

The company's utility-plant-in-service and accumulated depreciation balances for water and wastewater operations are \$897,584/(\$213,523) and \$1,377,001/(\$410,931), respectively, for the period ended December 31, 1997.

The company's land and land rights balances for water and wastewater plant sites are \$509 and \$2,610, respectively, for the period ended December 31, 1997.

The company has wastewater plant held for future use of \$2,500.

The company's contributions-in-aid-of-construction (CIAC) and accumulated CIAC balances for water and wastewater operations are (\$116,719)/\$14,954 and (\$96,929)/\$17,026, respectively, for the period ended December 31, 1997.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by verifying the company's books and records since commencing operations in 1987 which we believe are sufficient to base our opinion. Our more important audit procedures are summarized below. The following definitions apply when used in this report.

Scanned - The documents or accounts were read quickly looking for obvious errors.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error and inconsistency.

Verify - The items were tested for accuracy, and substantiating documentation was examined.

RATE BASE: Compiled account balances for utility-plant-in-service (UPIS), land and land rights, plant held for future use, contributions-in-aid-of-construction (CIAC), accumulated depreciation, and accumulated amortization of CIAC for December 31, 1997. Scanned account balances and verified all additions for rate base since the company began operations in 1987.

NET OPERATING INCOME: Scanned and recomputed an audit-determined sample of company billing records to verify the existing rates, miscellaneous service charges, service availability charges, and customer deposits charged by the company.

OTHER: Determined whether any extraordinary circumstances surrounding the purchase and transfer of utility assets would necessitate an acquisition adjustment.

Audit Exception No. 1

Subject: Noncompliance with the NARUC Uniform System of Accounts

Statement of Fact: Rule 25-30.115 (1), F.A.C., requires all water and wastewater utilities to maintain their accounts and records in conformity with the NARUC Uniform System of Accounts (USoA).

Opinion/Recommendation: Cypress Lakes Associates, Ltd. operates as the developer, manager, and utility service provider for the mobile home community of Cypress Lakes in Polk County, Florida. These operations were purchased from Cypress Lakes Ventures, Ltd. on April 23, 1996.

The company recorded \$2,547,450, an allocated portion of the total purchase price, on its books for the company assets. The books do not distinguish between water and wastewater assets. The company's books indicate balances of \$2,583,438 and (\$371,180) for water/sewer treatment plant and A/D water/sewer plant, respectively, as of December 31, 1997.

The company does not maintain its books per the Commission rule cited above.

Because this engagement is a Certificate of Transfer, no action against the seller, Cypress Lakes Associates, Ltd., is recommended at this time. However, the Commission should put the buyer, Cypress Lakes Utilities, Inc., on notice that it will be required to conform with the Commission rule cited above.

Audit Exception No. 2

Subject: Utility-Plant-In-Service (UPIS) and Associated Accumulated Depreciation of UPIS

Statement of Fact: Cypress Lakes Associates, Ltd.'s accounting records do not specifically identify UPIS and the associated accumulated depreciation balances for water and wastewater operations.

Rule 25-30.140 (2) establishes depreciation rates for water and wastewater utilities.

Opinion/Recommendation: The company was able to provide sufficient historical records and supporting source documentation for audit staff to compile UPIS and associated accumulated depreciation for the water and wastewater utilities as of December 31, 1997.

Audit staff has determined the following from the above information:

- 1) The balances for water and wastewater UPIS are \$897,584 and \$1,377,001, respectively, as of December 31, 1997.
- 2) The balances for water and wastewater accumulated depreciation are (\$213,523) and (\$410,931), respectively, as of December 31, 1997.

See the attached schedules for details.

The Commission should require the company to record the above amounts as determined by the audit staff.

Schedule A
Audit Exception No. 2

UTILITY-PLANT-IN-SERVICE - WATER
As of December 31, 1997

<u>Acc#</u>	<u>Account Description</u>	<u>Plant</u>	<u>Acc/Dep</u>
304.00	Structures & Improvements	\$59,572	(\$22,316)
307.00	Wells & Springs	45,253	(15,366)
310.00	Power Generation Equipment	22,000	(13,587)
311.00	Pumping Equipment	50,313	(27,361)
320.00	Water Treatment Equipment	6,924	(4,071)
330.00	Distribution Reservoirs & Standpipes	62,231	(11,269)
331.00	Transmission & Distribution Mains	351,279	(69,281)
333.00	Services	146,369	(31,195)
334.00	Meters & Meter Installations	95,369	(7,875)
335.00	Hydrants	<u>58,412</u>	<u>(11,202)</u>
	Totals	\$897,584	(\$213,523)

Schedule B
Audit Exception No. 2

UTILITY-PLANT-IN-SERVICE - WASTEWATER
As of December 31, 1997

<u>Acc#</u>	<u>Account Description</u>	<u>Plant</u>	<u>Acc/Dep</u>
354.00	Structures & Improvements	\$124,988	(\$47,912)
354.50	Structures & Improvements - General Plant	3,000	(645)
355.00	Power Generating Equipment	11,097	(4,897)
360.00	Collection - Sewers Forced	86,370	(23,665)
361.00	Collection - Sewers Gravity	452,270	(86,636)
361.50	Collection - Sewers Gravity - Manholes	246,941	(68,931)
362.00	Special Collecting Structures	16,370	(3,315)
363.00	Service to Customers	110,966	(17,719)
370.00	Receiving Wells	70,571	(29,641)
380.00	Treatment & Disposal Equipment	224,875	(120,236)
381.00	Plant Sewers	19,293	(5,301)
389.00	Other Plant & Miscellaneous Equipment	3,445	(1,725)
394.00	Laboratory Equipment	3,940	(164)
396.00	Communication Equipment	<u>2,875</u>	<u>(144)</u>
	Totals	\$1,377,001	(\$410,931)

Audit Exception No. 3

Subject: Land and Land Rights

Statement of Fact: The Cypress Lakes community was initially developed by Cypress Lakes Ventures, Ltd. beginning July 25, 1985, with the purchase of 710.23 acres of undeveloped land for \$2,130,700 from Mr. Lawrence McNeill (\$3,000 per acre).

Rule 25-30.037 (2) (q), F.A.C requires the following:

... evidence that the utility owns the land upon which the utility treatment facilities are located, or a copy of an agreement which provides for the continued use of the land, such as a 99-year lease. The Commission may consider a written easement or other cost-effective alternative.

Per NARUC Uniform System of Accounts, Accounting Instruction 18-A, "All amounts included in the accounts for the utility plant acquired as an operating unit or system, shall be stated at the cost incurred by the person who first devoted the property to utility service."

On April 23, 1997, Cypress Lakes Associates, Ltd. (seller) purchased real property and utility assets from Cypress Lakes Ventures, Ltd. (Phase 1, Phase 2A, Phase 2B, Phase 4, and Phase 5)

On December 1, 1996, Cypress Lakes Associates, Ltd. purchased real property and began developing Phase 5-1 as an additional mobile home rental community. Company records indicate that lots in this phase were being connected to the water and wastewater systems on June 30, 1997.

Opinion/Recommendation: On August 20, 1997, Cypress Lakes Associates, Ltd. entered into a sales contract with Cypress Lakes Utilities, Inc., (buyer) for the water and wastewater utilities. The contract requires the conveyance of title and(or) easements to the buyer for real property associated with utility operations. The seller has provided surveys of the utility plant sites that will be conveyed at the time of closing. The water and wastewater sites will contain approximately 0.1695 and 0.870 acres, respectively.

Per the two rules cited above, audit staff has determined an original cost of \$509 and \$ 2,610 for the water and wastewater utility property calculated as follows:

<u>System</u>	<u>Original Cost</u>		<u>Area</u>	=	<u>Value</u>	<u>Acc#</u>
Water	\$3,000/acre	x	0.1695 acres	=	\$509	303.00
Wastewater	\$3,000/acre	x	0.8700 acres	=	\$2,610	353.00

The Commission should require the buyer to record the above values for utility land in the indicated NARUC accounts.

Audit Exception No. 3, continued

Additionally, the sales contract referred to above does not address the transfer by sale, grant, or easement of any utility infrastructure in Phase 5-1.

Approval of the transfer application in its present format would require the buyer to provide water and wastewater service to customers in Phase 5-1 where they will not own nor have legal access to any of the water and wastewater infrastructure.

The Commission should require the buyer and seller to amend their current sales contract to address this issue prior to approval of their transfer application.

Additionally, the Commission should require the seller to provide all documentation available to properly account for the plant infrastructure constructed in Phase 5-1.

Audit Exception No. 4

Subject: Plant Held for Future Use

Facts: Per NARUC Uniform System of Accounts, Balance Sheet Accounts, Utility Plant, Account No. 103 A., "This account shall include the original cost of property owned and held for future use in utility service under a definite plan for such use."

Opinion/Recommendation: Audit staff conducted a tour of utility plant operations on February 24, 1998, with the on-site operator. Among the items observed were three 33,000-gallon steel wastewater treatment tanks lying in a field adjacent to the wastewater plant site. The operator on duty stated that the tanks were purchased from the City of Auburndale for a future wastewater treatment plant expansion project.

While audit staff was reviewing company records, an invoice in the amount of \$2,500 from the City of Auburndale was discovered that confirmed the operator's statement.

The company should be required to book \$2,500 to Account No. 103 Plant Held for Future Use to properly record the information discussed above.

Audit Exception No. 5

Subject: Contributions-In-Aid-of-Construction (CIAC) and Associated Accumulated Amortization of CIAC

Facts: Cypress Lakes Associates, Ltd.'s accounting records do not specifically identify CIAC and the associated accumulated amortization of CIAC balances for water and wastewater operations.

Rule 25-30.140 (8) (a) requires the following:

Contributions in Aid of Construction - Adequate records to account for CIAC must be maintained by the utility. Where adequate records separating CIAC from utility investments are maintained by account, depreciation rates shall be applied separately to contributed and non-contributed plant with the resulting amortization of contributed plant not considered an expense for rate making purposes.

The amortization rate shall be that of the appropriate account or function where supporting documentation is available to identify the account or function of the related CIAC plant.

FPSC Order No. 12691, issued November 16, 1983, established a Commission precedent that all contributions which affect net rate base values must be recognized by a utility. Specifically, this order addressed the recognition of CIAC by a utility that was established prior to being subject to Chapter 367, Florida Statutes.

On May 14, 1996, the Board of Commissioners of Polk County adopted a resolution pursuant to Section 367.171, Florida Statutes, declaring that privately owned water and wastewater utilities in that county were subject to the provisions of Chapter 367, Florida Statutes. However, Polk County retained jurisdiction over Cypress Lakes Associates, Ltd. whose initial rate request was under its consideration at that time.

On August 6, 1996, Polk County established initial rates, miscellaneous fees, and service availability charges for Cypress Lakes Associates, Ltd.

FPSC Order No. PSC-97-0569-FOF-WS, issued May 20, 1997, granted a Grandfather Certificate and adopted the initial rates and charges established by Polk County for Cypress Lakes Associates, Ltd., as stated above.

Opinion/Recommendation: The company was able to provide sufficient historical records and supporting source documentation for the audit staff to compile CIAC and associated accumulated amortization of CIAC for the water and wastewater utilities as of December 31, 1997.

Audit Exception No. 5, continued

The audit staff has determined the following from the above information:

- 1) The balances for water and wastewater CIAC are (\$116,719) and (\$96,929), respectively, as of December 31, 1997.
- 2) The balances for water and wastewater accumulated amortization of CIAC are \$14,954 and \$17,026, respectively, as of December 31, 1997.

See attached schedules for details.

The Commission should require the company to record the above amounts as determined by the audit staff.

Schedule A
Audit Exception No. 5

CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION - WATER
As of December 31, 1997

<u>Date</u>	<u>Acc# 331</u>	<u>Acc# 333</u>	<u>Acc# 334</u>	<u>Acc# 335</u>	<u>Total</u>
12/31/87	0	0	0	0	\$0
12/31/88	0	0	0	0	\$0
12/31/89	0	0	0	0	\$0
12/31/90	33,638	11,340	0	5,200	\$50,178
12/31/91	0	0	0	0	\$0
12/31/92	0	0	0	0	\$0
12/31/93	0	0	0	0	\$0
12/31/94	0	0	0	0	\$0
12/31/95	0	0	0	0	\$0
12/31/96	0	0	50,199	0	\$50,199
12/31/97	<u>0</u>	<u>0</u>	<u>16,342</u>	<u>0</u>	<u>\$16,342</u>
Total	\$33,638	\$11,340	\$66,541	\$5,200	\$116,719

ACCUMULATED AMORTIZATION OF CIAC - WATER
As of December 31, 1997

<u>Date</u>	<u>Acc# 331</u>	<u>Acc# 333</u>	<u>Acc# 334</u>	<u>Acc# 335</u>	<u>Total</u>
12/31/87	0	0	0	0	\$0
12/31/88	0	0	0	0	\$0
12/31/89	0	0	0	0	\$0
12/31/90	443	162	0	65	\$670
12/31/91	885	324	0	130	\$1,339
12/31/92	885	324	0	130	\$1,339
12/31/93	885	324	0	130	\$1,339
12/31/94	885	324	0	130	\$1,339
12/31/95	885	324	0	130	\$1,339
12/31/96	885	324	1,476	130	\$2,816
12/31/97	<u>885</u>	<u>324</u>	<u>3,434</u>	<u>130</u>	<u>\$4,773</u>
Total	\$6,639	\$2,430	\$4,910	\$975	\$14,954

Schedule B
Audit Exception No. 5

CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION - WASTEWATER
As of December 31, 1997

<u>Date</u>	<u>Acc# 361</u>	<u>Acc# 361.5</u>	<u>Acc# 363</u>	<u>Total</u>
12/31/87	0	0	0	\$0
12/31/88	0	0	0	\$0
12/31/89	0	0	0	\$0
12/31/90	31,800	23,400	191,150	\$74,315
12/31/91	0	0	0	\$0
12/31/92	0	0	0	\$0
12/31/93	0	0	0	\$0
12/31/94	0	0	0	\$0
12/31/95	0	0	0	\$0
12/31/96	0	0	4,997	\$4,997
12/31/97	<u>0</u>	<u>0</u>	<u>17,617</u>	<u>\$17,617</u>
Total	\$31,800	\$23,400	\$41,729	\$96,929

ACCUMULATED AMORTIZATION OF CIAC - WASTEWATER
As of December 31, 1997

<u>Date</u>	<u>Acc# 361</u>	<u>Acc# 361.5</u>	<u>Acc# 363</u>	<u>Total</u>
12/31/87	0	0	0	\$0
12/31/88	0	0	0	\$0
12/31/89	0	0	0	\$0
12/31/90	398	433	273	\$1,104
12/31/91	795	867	546	\$2,208
12/31/92	795	867	546	\$2,208
12/31/93	795	867	546	\$2,208
12/31/94	795	867	546	\$2,208
12/31/95	795	867	546	\$2,208
12/31/96	795	867	617	\$2,279
12/31/97	<u>795</u>	<u>867</u>	<u>941</u>	<u>\$2,603</u>
Total	\$5,963	\$6,502	\$4,561	\$17,026

EXHIBIT I

CYPRESS LAKES ASSOCIATES, LTD.
 DOCKET NO. 971220-WS
 WATER RATE BASE
 PERIOD ENDED DECEMBER 31, 1997

(a) DESCRIPTION	(b) PER COMPANY(1)	(c) AUDIT EXCEPTION(2)	(d) REFER TO	(e) PER AUDIT
UTILITY PLANT-IN-SERVICE	\$0	\$897,584	E-2	\$897,584
LAND	\$0	\$509	E-3	\$509
PLANT HELD FOR FUTURE USE	\$0	\$0		\$0
CIAC	\$0	(\$116,719)	E-5	(\$116,719)
AMORTIZATION OF CIAC	\$0	\$14,954	E-5	\$14,954
ACCUMULATED DEPRECIATION	\$0	(\$213,523)	E-2	(\$213,523)
TOTAL	\$0	\$582,805		\$582,805

REQUIRED FOOTNOTES:

- (1) Cypress Lakes Associates, Ltd. has not maintained separate books for its utility operations. See Audit Exception No. 1.
- (2) Small differences are due to rounding.

EXHIBIT II

CYPRESS LAKES ASSOCIATES, LTD.
 DOCKET NO. 971220-WS
 WASTEWATER RATE BASE
 PERIOD ENDED DECEMBER 31, 1997

(a) DESCRIPTION	(b) PER COMPANY(1)	(c) AUDIT EXCEPTION(2)	(d) REFER TO	(e) PER AUDIT
UTILITY PLANT-IN-SERVICE	\$0	\$1,377,001	E-2	\$1,377,001
LAND	\$0	\$2,610	E-3	\$2,610
PLANT HELD FOR FUTURE USE	\$0	\$2,500	E-4	\$2,500
CIAC	\$0	(\$96,929)	E-5	(\$96,929)
AMORTIZATION OF CIAC	\$0	\$17,026	E-5	\$17,026
ACCUMULATED DEPRECIATION	\$0	(\$410,931)	E-2	(\$410,931)
	=====	=====		=====
TOTAL	\$0	\$891,277		\$891,277

REQUIRED FOOTNOTES:

- (1) Cypress Lakes Associates, Ltd. has not maintained separate books for its utility operations. See Audit Exception No. 1.
- (2) Small differences are due to rounding.

STATE OF FLORIDA

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.



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

Public Service Commission

April 17, 1998

Fred Babb, General Manager
Cypress Lakes Associates, Ltd.
10000 North U.S. Highway #98
Lakeland, Florida 33809-8031

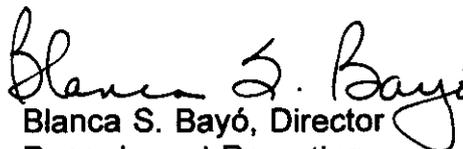
RE: 971220-WS -- Cypress Lakes Associates, Ltd.
Audit Report - Transfer
Audit Control # 97-311-3-1

Dear Mr. Babb:

The enclosed confidential 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, Director
Records and Reporting

BSB/mas
Enclosure
cc: Ben Girtman, Esquire
✓ Office of Public Counsel
Division of Auditing and Financial Analysis

STATE OF FLORIDA

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.



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

Public Service Commission

April 20, 1998

CORRECTED LETTER

Fred Babb, General Manager
Cypress Lakes Associates, Ltd.
1000 North U.S. Highway #98
Lakeland, Florida 33809-8031

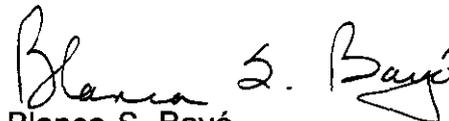
Re: Docket No. 971220-WS - Cypress Lakes Associates, Ltd.
Audit Report - Transfer
Audit Control # 97-311-3-1

Dear Mr. Babb:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above case 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/mas
Enclosure
cc: Ben Girtman, Esquire
Public Counsel
Division of Audit and Financial Analysis