

M E M O R A N D U M

October 23, 1998

TO: DIVISION OF RECORDS AND REPORTING

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

RE: DOCKET NO. 980912-SU -- TERRACE PARK VENTURES
STAFF-ASSISTED RATE CASE AUDIT REPORT
AUDIT CONTROL NO. 98-231-2-1

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 one diskette. The diskette 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:

Terrace Park Ventures
Ronald Hoffer
400 South Bellis Street, #102
Wausau, WI 54403-6334

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 (Galloway)
Tallahassee District Office (Hicks)
Tampa District Office (McPherson)

Research and Regulatory Review (Harvey)
Office of Public Counsel

DOCUMENT NUMBER-DATE

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FPSP-RECORDS/REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING

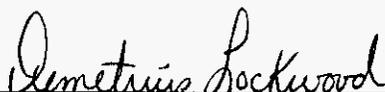
Tallahassee District Office

SKY ACRES d/b/a TERRACE PARK VENTURE

STAFF-ASSISTED RATE CASE AUDIT

HISTORICAL YEAR ENDED December 31, 1997

DOCKET NO. 980912-SU
AUDIT CONTROL NO. 98-231-2-1


Demetrius Lockwood, Audit Manager


Rhonda Hicks, Audit Supervisor

DOCUMENT NUMBER-DATE

12031 OCT 28 88

CHOC-RECORDS/REPORTING

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

October 16, 1998

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure for the historical 12-month period ended December 31, 1997, for Sky Acres d/b/a Terrace Park Venture. These schedules were prepared by the auditor as part of the utility's petition for a staff-assisted rate case in Docket No. 980912-SU. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

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 schedules referred to above present fairly, in all material respects, the utility's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission.

SUMMARY OF SIGNIFICANT FINDINGS

The utility does not use NARUC accounts. Depreciation has not been calculated using Rule 25-30.140 F.A.C. Operating and Maintenance expenses of \$22,815 were not supported in 1997. Operating Revenues of \$12,909 were not supported in 1997.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. 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 or inconsistency.

Reviewed - The exhibit amounts were reconciled with general ledger. The general ledger account balances were traced to subsidiary ledgers and selective analytical review procedures were applied.

Examined - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

Verified - The item was tested for accuracy, and substantiating documentation was examined.

RATE BASE: Prepared a schedule from annual reports and examined account balances for Utility-Plant-in-Service (UPIS), Contributions-in-Aid-of-Construction (CIAC), and accumulated depreciation. Reconciled rate base account balances to audit findings. Calculated working capital using one-eighth of the utility's operation and maintenance expenses. Examined plant additions. Recomputed 1997 accumulated depreciation.

NET OPERATING INCOME: Compiled utility revenue, operating expense, and maintenance expense accounts for the year ended December 31, 1997. Recalculated customer billing register. Reviewed operation and maintenance expenses and examined the invoices and other supporting documentation. Recalculated 1997 depreciation expense. Examined support for taxes other than income.

CAPITAL STRUCTURE: Compiled components of the capital structure for the year ended December 31, 1997. Reconciled note payables to general ledger.

EXCEPTIONS

Exception No. 1

Subject: Uniform System of Accounts for Wastewater

Statement of Fact: Rule 25-30.115 F.A.C (1) states, "Water and Wastewater utilities shall, effective January 1, 1986, maintain its accounts and records in conformity with the 1984 NARUC Uniform System of Accounts (USOA) adopted by the National Association of Regulatory Utility Commissioners." The utility does not use the NARUC USOA.

Recommendation: The utility should maintain its accounts and records in conformity with NARUC.

Exception No. 2

Subject: Depreciation Expense and Accumulated Depreciation

Statement of Fact: Sky Acres d/b/a Terrace Park Venture has not been calculating depreciation based on Rule 25-30.140 F.A.C.

Recommendation: Depreciation and Accumulated Depreciation for 1997 has been recalculated by staff. The difference is shown below.

Depreciation Expense per Audit for Wastewater:	\$2,689.64
Depreciation Expense per Company for Wastewater:	<u>\$1,728.00</u>
Difference:	\$ 961.64

The utility should make the following adjustments:

	<u>Dr</u>	<u>Cr</u>
Depreciation Expense	\$961.64	
Accumulated Depreciation		\$961.64

DISCLOSURES

Disclosure No. 1

Subject: **Operating Revenues**

Statement of Fact: The Company's operating revenues are as reported below:

<u>Account No.</u>	<u>Account Name</u>	<u>Company's Reported Amount</u>	<u>Auditor's Findings</u>	<u>Amount Overstated</u>
4001	Sewer Fees	\$12,909.00	\$9,758.72	(\$3,150.28)

Recommendation: The company's amounts are not fully supported by the utility's books and records. The audit staff recommends the utility adjust the above amounts.

Disclosure No. 2

Subject: Operation and Maintenance Expenses

Statement of Fact: The Company's operation and maintenance expenses are as reported below:

<u>Account No.</u>	<u>Account Name</u>	<u>Company's Reported Amount</u>	<u>Auditor's Findings</u>	<u>Amount Understated/ (Overstated)</u>
711	Sludge Removal	\$ 2,124.00	\$ 2,600.00	\$ 476.00
715	Purchased Power	\$ 942.00	\$ 349.53	(\$ 592.47)
718	Chemicals	\$ 965.00	\$ 0	(\$ 965.00)
730	Contractual Serv.	\$15,038.00	\$13,448.44	(\$1,589.56)
755	Insurance Expense	\$ 85.00	\$ 85.00	0
765	Regulatory Comm.	\$ 540.00	\$ 690.30	\$ 150.30
775	Miscellaneous Exp.	<u>\$ 3,121.00</u>	<u>\$ 3,440.82</u>	<u>\$ 319.82</u>
	TOTALS	\$ 20,614.09	\$22,815.00	(\$2,200.91)

Recommendation: The company's amounts are not fully supported by the utility's books and records. The audit staff recommends the utility adjust the above amounts.

Disclosure No. 3

Subject: Capital Structure

Statement of Fact: The Company's note payables are as reported below:

<u>Account Description</u>	<u>Balance Per Company's Books</u>
Kellylands - Note Payable	(\$10,219.68)
Sky Acres - Note Payable	<u>(\$35,118.60)</u>
TOTAL	(\$47,610.41)

Recommendation: The company's note payables are obtained through related parties and are not supported by written debt agreements. The audit staff suggests the utility maintain written documents as to notes payables.

Sky Acres d/b/a Terrace Park Venture
 Staff-Assisted Rate Case
 Rate Base Balances - Wastewater
 Test year ended December 31, 1997

EXHIBIT I

Description	Balance Per Books 12-31-97	Audit Exceptions	Refer To	Balance Per Audit 12-31-97
Pumping Equipment	10,319.00			10,319.00
Treatment & Disposal	5,339.00			5,339.00
Other Plant/Miscellaneous	4,668.00			4,668.00
Office Furniture/Equipment	0.00			0.00
Accumulated Depreciation	(50,854.00)	961.64	E - 2	(49,892.36)
Structures & Improvements	36,443.00			36,443.00
C.I.A.C	0.00			0.00
Working Capital		2,576.76	{1}	2,576.76
TOTALS	5,915.00	3,538.40		9,453.40

{1} WORKING CAPITAL WAS CALCULATED AT 1/8 O & M EXPENSE

Sky Acres d/b/a Terrace Park Venture
 Staff-Assisted Rate Case
 Capital Structure - Wastewater
 Test year ended December 31, 1997

EXHIBIT II

Description	Balance Per Books 12-31-97	Ratio	Cost Rate	Weighted Avg. Cost of Capital
** Kellylands - Note Payable	(10,219.68)	22.54%	0.00%	0.00%
** Sky Acres - Note Payable	(35,118.60)	77.46%	0.00%	0.00%
TOTALS	(45,338.28)	100.00%		0.00%
** <i>There were no written debt agreements for the following note payables.</i>				

Sky Acres d/b/a Terrace Park Venture
 Staff-Assisted Rate Case
 Net Operating Income - Wastewater
 Test year ended December 31, 1997

EXHIBIT III

Description	Balance Per Books 12-31-97	Audit Findings	Refer To	Balance Per Audit 12-31-97
Operating Revenues:				
Metered	12,909.00	(3,150.28)	D - 1	9,758.72
Other	0.00			0.00
Operating Expenses:				
O & M Expense	22,815.00	(2,200.91)	D - 2	20,614.09
Depreciation Expense	1,728.00	961.64	E - 2	2,689.64
Taxes Other Than Income	836.00			836.00
CIAC Amortization Expense	0.00			0.00
Net Operating Profit (Loss)	(12,470.00)			(14,381.01)