

State of Florida



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: November 19, 1998
TO: Division of Records and Reporting
FROM: Division of Auditing and Financial Analysis (Vandiver) *a*
RE: Docket No. 980912-SU; Terrace Park Ventures;
Audit Control No. 98-231-2-1

Attached is a final audit report for the utility stated above. The audit was prepared using a micro computer and various files are recorded on diskette. There are not confidential work papers associated with this audit.

Please forward a complete copy of this audit report to:

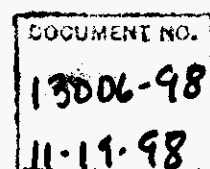
Mr. Ronald Hoffer
Terrace Park Ventures
400 South Bellis Street, #102
Wausau, WI 54403-6334

DNV

Attachment

cc: Division of Auditing and Financial Analysis (Devlin, Causseaux)
Division of Water and Wastewater (Galloway)
Division of Legal Services

Research and Regulatory Review (Harvey)
Office of Public Counsel





FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING

Tallahassee District Office

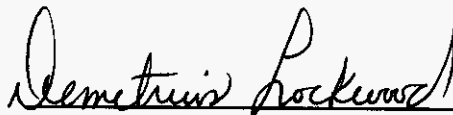
SKY ACRES d/b/a TERRACE PARK VENTURE

STAFF-ASSISTED RATE CASE AUDIT

REVISED

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

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Revised 11/17/98

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

October 16, 1998

Revised Report - November 17, 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 as prepared by the auditor, 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 fully use NARUC accounts. The utility does not follow accrual basis accounting. Depreciation has not been calculated using Rule 25-30.140 F.A.C. Operating and Maintenance expenses are understated. Operating Revenues are overstated.

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 utilizing the general ledger, invoices and annual reports. 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 for all of its accounts. Some of the utility's expense accounts follow the NARUC USoA.

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

Exception No. 2

Subject: Accrual Accounting

Statement of Fact: Cash basis accounting recognizes revenues in the period in which the cash is collected, and it recognizes expenses in the period in which the costs are actually paid. Accrual basis accounting recognizes revenue in the period in which the service occurred, and it recognizes expenses in the period in which the expense is incurred. Accounting Instruction No. 2. - *General - Records*, of the NARUC USoA for Class C wastewater utilities, requires accrual accounting. It states, "The books of accounts of all wastewater utilities shall be kept by the double entry method, on an accrual basis."

Terrace Park Ventures utilizes the cash basis of accounting. That is, revenues are recognized when they are received, and expenses are recognized when they are paid.

During the review of the utility's general ledger, the audit staff found that the utility had not recorded several test year expenses because they had not yet been paid. For example, the general ledger does not reflect twelve months of purchased power expense because the utility had not paid twelve months of expense by the end of the test year. However, the utility actually incurred twelve months of purchased power expense.

During the audit, the audit staff discovered that the utility's bills for various expenses were past due several times during the test year, and oftentimes, invoices were paid months later. Once the invoices are paid, they are reflected in the general ledger.

Recommendation: The utility should use the accrual basis of accounting as required by the NARUC USoA.

DISCLOSURES

Disclosure No. 1

Subject: Operating Revenues

Statement of Fact: The Company's Regulatory Assessment Fee return reflects total operating revenues (rounded) of \$12,909. The general ledger reflects total sewer fees of \$12,908.67. However, the utility's billing records indicate billed revenues of \$9,762.95.

Recommendation: Test year revenues are overstated. Total operating revenues should be \$9,762.95. The audit staff examined the utility's bank account and found that deposits totaling \$13,964.17 were made during the test year. However, some of the deposits were non-utility and did not relate to the payment of wastewater bills by the utility's customers.

Some utility customers paid the utility one check, combining payment of Terrace Park Homeowner Association (HOA) dues with payment of the wastewater bill. When this occurs, the utility writes a check to the HOA for the amount of the overpayment. During the test year, the utility's general ledger reflects payments totaling \$1,055.50 for HOA reimbursements. The utility reduced its total revenues (deposits) by the HOA reimbursements to determine its reported revenues.

Total Revenue per General Ledger	HOA Reimbursements	Company Reported Revenues
\$ 13,964.17	\$ (1,055.50)	\$ 12,908.67

The audit staff also found that the utility received short-term, no-interest loans from a related party (Sky Acres Enterprises) when the utility was unable to pay its expenses. The cash received from the related party was included in the reported revenues. In addition, the audit staff found additional HOA payments which were included in the utility's reported revenues. The audit staff believes there may be additional non-utility revenue which it was unable to identify. The audit staff's calculation of test year revenues is as follows:

Reconciliation of Revenues	
Reported Revenues	\$12,908.67
Less: Non-utility revenue (Sky Acres Enterprises)	\$(2,500.00)
Less: Additional HOA reimbursements	\$(446.00)
Less: Other non-utility revenue	\$(199.72)
Adjusted Revenues per Audit	\$9,762.95

Disclosure No. 2

Subject: Expenses

Statement of Fact: The general ledger reflects company expenses totaling \$23,644.44. The Company's expenses as reflected in the general ledger are presented below:

Account No.	Account	Per Company
711	Sludge Removal Expense	\$2,124.35
715	Purchased Power	\$941.79
718	Chemicals	\$964.50
720	Materials and Supplies	\$0.00
731	Contractual Services - Professional	\$2,304.00
735	Contractual Services - Testing	\$347.00
736	Contractual Services - Other	\$12,387.74
755	Insurance Expense	\$85.00
765	Regulatory Commission Expense	\$540.05
775	Miscellaneous Expense	\$3,113.86
408	Taxes Other Than Income	\$836.15
Total		\$23,644.44

Recommendation: Total company expenses are understated. Expenses should be increased by \$2,690.98. A comparison of expenses is presented below.

Acct No.	Account	Per Company	Per Audit	Difference
711	Sludge Removal Expense	\$2,124.00	\$1,458.05	\$(665.95)
715	Purchased Power	\$941.79	\$1,027.40	\$85.61
718	Chemicals	\$964.50	\$2,631.25	\$1,666.75
720	Materials and Supplies	\$0.00	\$1,466.88	\$1,466.88

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<i>Acct No.</i>	<i>Account</i>	<i>Per Company</i>	<i>Per Audit</i>	<i>Difference</i>
731	Contract Services - Professional	\$2,304.00	\$2,034.00	\$270.00
735	Contract Services - Testing	\$347.00	\$2,147.00	\$1,800.00
736	Contract Services - Other	\$12,387.74	\$9,750.50	\$(2,637.24)
755	Insurance Expense	\$85.00	\$85.00	\$0.00
765	Regulatory Commission Expense	\$540.05	\$439.33	\$(100.72)
775	Miscellaneous Expense	\$3,113.86	\$4,016.43	\$902.57
408	Taxes Other than Income	\$836.15	\$739.23	\$(96.92)
Total		\$23,644.09	\$25,795.07	\$2,690.98

The differences noted for each account are discussed later in this report.

Disclosure No. 3**Subject: Contractual Services**

Statement of Fact: The utility is managed by H2O Utility Services, Inc. under an Utility Management Services Agreement. Under this agreement, H2O Utility Services, Inc. provides required visits to the wastewater facility with certified operators, and they respond to emergency calls as required and requested. H2O also performs monthly compliance samples for wastewater quality analysis, maintains records on plant operation and laboratory data, coordinates lab activities, performs daily testing, and coordinates sludge hauling.

The utility pays H2O Utility Services, Inc. \$600 a month for the satisfactory performance of the aforementioned services. In addition to the \$600 fee, the utility must pay for any repairs made to the facility, the analysis of samples taken from the facility, personnel responding to emergency calls, sludge hauling, materials and supplies, and any chemicals used by H2O in the performance of its contractual duties.

The H2O invoices provided by the utility detail the services provided by H2O and the related costs of operating and maintaining the wastewater facility. However, the utility did not consistently separate costs. Although most of the costs were recorded in Account No. 736 - Contractual Services-Other, the utility did attempt to record some expenses related to sludge removal, testing, and chemicals in the appropriate accounts. The cost of materials and supplies, which was detailed on all invoices where the expense was incurred, was not separately recorded. In addition, the utility did not record all of the H2O invoices.

Recommendation: The utility should separate all costs listed on H2O invoices and record the expenses in the appropriate NARUC account. In addition, the utility should record the expenses as they are incurred. (See Exception 2.) The audit staff examined all of the H2O invoices received by the utility during the test year and separated all costs by NARUC account. The results are reflected below.

<i>Acct No.</i>	<i>Account</i>	<i>Per Company</i>	<i>Per Audit</i>	<i>Difference</i>
711	Sludge Removal Expense	\$2,124.35	\$1,458.05	\$(666.30)
718	Chemicals	\$964.50	\$2,631.25	\$1,666.75
720	Materials and Supplies	\$0.00	\$1,466.88	\$1,466.88
735	Contract Services - Testing	\$347.00	\$2,147.00	\$1,800.00
736	Contract Services - Other	\$12,387.74	\$9,750.50	\$(2,637.24)
Total		\$15,823.59	\$17,453.68	\$1,630.09

Disclosure No. 4

Subject: Purchased Power Expense

Statement of Fact: The utility utilizes the cash basis of accounting (See Exception 2.) During the test year, the utility paid eleven months of purchased power expense totaling \$941.79. As a result, the utility's general ledger reflects only eleven months of purchased power expense when the utility actually incurred twelve months of expense.

Recommendation: The audit staff was unable to locate the missing invoice. As a result, the eleven months of purchased power expense of \$941.79 was annualized. Total purchased power expense for the test year should be \$1,027.40. Purchased power expense should be increased by \$85.61 to include the bill the utility failed to record.

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Disclosure No. 5

Subject: Water Expense

Statement of Fact: The utility purchases water from Pasco County for use at its wastewater treatment facility. The water expense account (Account No. 775 - Miscellaneous Expenses) in the general ledger reflects ten entries for water expense totaling \$3,113.86. However, the utility actually incurred twelve months of water expense.

Recommendation: Account No. 775 - Miscellaneous Expenses should be increased by \$902.57. The total test year water expense is \$4,016.43. In addition, these expenses should be reviewed by an engineer to determine their reasonableness.

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Disclosure No. 6

Subject: Regulatory Commission Expense

Statement of Fact: The utility's general ledger reflects Regulatory Commission Expense of \$540.05 for the payment of regulatory assessment fees (RAF). However, the payment represents the amount paid for 1996. The audit staff obtained a copy of the utility's 1997 RAF return and found that the actual RAF for 1997 is \$580.90 based on revenues of \$12,909.

Recommendation: Disclosure No. 1, reveals that test year revenues are overstated. As a result, the utility has overstated RAF expense for the test year. Based on revenues of \$9,762.95, the RAF should be \$439.33. Regulatory Commission expense should be reduced by \$100.72, and the utility should seek a refund of any overpayment.

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Disclosure No. 7

Subject: **Landscaping Expenses**

Statement of Fact: The utility's general ledger includes expenses for lawn service totaling \$1,271. The costs are recorded in Contractual Services - Other. The invoices, from S&B Landscape Maintenance and Country Pride, state that the bills are for lawn maintenance.

Recommendation: The reported costs may be unreasonable. The analyst may want to consult with the engineer to discuss the landscaping around the wastewater treatment facility.

Disclosure No. 8

Subject: Property Taxes

Statement of Fact: The utility's general ledger reflects a payment of \$836.15 for 1997 property taxes. A copy of the actual tax bill reflects an assessment of \$770.03 if the utility paid its taxes by March 31, 1997. The audit staff contacted the Florida Department of Revenue and verified that a discount of 4% of the 1997 property tax assessment (\$30.80) is received by the taxpayer if payment is made in November 1997.

Recommendation: The appropriate amount of property tax expense for the test year is \$739.23. The tax assessment of \$770.03 should be reduced by \$30.80 to reflect the discount lost by the utility. Account No. 408 - Taxes Other than Income should be adjusted as follows:

	<i>Per Company</i>	<i>Per Audit</i>	<i>Difference</i>
Acct. No. 408 - Taxes Other than Income	\$ 836.15	\$ 739.23	\$ (96.92)

Disclosure No. 9

Subject: Depreciation Expense and Accumulated Depreciation

Statement of Fact: Terrace Park Venture calculates depreciation expense using accelerated depreciation rates. The utility's general ledger reflects the following:

Accumulated Depreciation @ January 1, 1997	\$47,488.66
1997 Depreciation Expense	\$2,211.00
Accumulated Depreciation @ December 31, 1997	\$49,699.66

Recommendation: The utility should depreciate its plant accounts based on Commission Rule 25-30.140, F.A.C. for Class C utilities. The audit staff recommends the accumulated depreciation balance be recalculated to reflect depreciation based on the rates per Rule 25-30.140, F.A.C. As a result, the utility's accumulated depreciation balance since at the date of the facility's inception has been recalculated. In addition, test year depreciation expense has been recalculated. The auditor's recommended adjustments are presented below.

Depreciation Expense per Audit for Wastewater:	\$2,689.00
Depreciation Expense per Company for Wastewater:	<u>\$2,211.00</u>
Depreciation expense increase:	<u>\$ 478.00</u>

If the analyst restates accumulated depreciation at December 31, 1997, the following adjustment is appropriate:

Accumulated Depreciation per Audit:	\$26,118.51
Accumulated Depreciation per Company:	<u>\$49,699.66</u>
Accumulated depreciation decrease:	<u>(\$23,581.15)</u>

If the analyst does not restate accumulated depreciation, the appropriate amount of accumulated depreciation at December 31, 1997 is as follows:

Accumulated Depreciation @ 1/1/97	\$47,488.66
Depreciation Expense per Audit	<u>2,689.00</u>
Accumulated Depreciation @ 12/31/97	<u>\$50,177.66</u>

Disclosure No. 10

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 Adjustments	Refer To	Balance Per Audit 12-31-97
Land	\$4,375.47			\$4,375.47
Structures and Improvements	\$36,443.00			\$36,443.00
Pumping Equipment	\$10,319.00			\$10,319.00
Treatment and Disposal Equip.	\$5,339.00			\$5,339.00
Other Plant & Misc. Equipment	\$4,668.00			\$4,668.00
Total Plant in Service	\$61,144.47			\$61,144.47
Less:				
Accumulated Depreciation	\$49,699.66	(\$23,581.15)	D - 9	\$26,118.51
C.I.A.C	\$0.00			\$0.00
Net Plant in Service	\$11,444.81			\$35,025.96
(1) Working Capital	\$3,131.98			\$3,131.98
Total Rate Base	\$14,576.79			\$38,157.94

(1) WORKING CAPITAL WAS CALCULATED AT 1/8 O & M EXPENSE (\$25,055.84)

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%
** There were no written debt agreements for the following note payables.				

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	\$12,908.67	(\$3,145.72)	D - 1	\$9,762.95
Other	\$0.00			\$0.00
Total Revenues	\$12,908.67			\$9,762.95
Operating Expenses:				
O & M Expense	\$22,808.29	\$2,247.55	D - 2	\$25,055.84
Depreciation Expense	\$2,211.00	\$478.00	D - 9	\$2,689.00
Taxes Other Than Income	\$836.15	(\$96.92)	D - 8	\$739.23
CIAC Amortization Expense	\$0.00			\$0.00
Total Expenses	\$25,855.44			\$28,484.07
Net Operating Profit (Loss)	(\$12,946.77)			(\$18,721.12)