



ORIGINAL
Public Service Commission

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

DATE: December 21, 1998
TO: Division of Auditing and Financial Analysis (Vandiver)
FROM: Division of Water and Wastewater (Walker) *Nde BGM/gpw*
RE: Docket No. 981697-WS - Application for Authority to Transfer the Facilities of Village Water, Ltd., and Certificates Nos. 585-W and 503-S in Polk County, Florida to AquaSource Utility, Inc.

An audit of the utility's books and records is needed for the above referenced proceeding. An ASR (Audit Service Request) form is attached. Completion of the audit report by March 31, 1999 is requested.

Attachments

cc: Division of Records and Reporting (w/o enclosures)
Division of Legal Services (McRae) (w/o enclosures)
Division of Water and Wastewater (Redemann) (w/o enclosures)

ACK _____
AEA _____
APP _____
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DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

AUDIT SERVICE REQUEST

December 21, 1998
Date of Request

AFA control #

TO : DIVISION AUDIT & FINANCE

FROM : DIVISION OF WATER AND WASTEWATER (WALKER) 850-413-6924
Division Name Phone Number

RE : REQUEST FOR AUDIT OF: VILLAGE WATER, LTD.

DOCKET NO.: 981697-WS

AUDIT PURPOSE: RATE BASE DETERMINATION

LIST AUDIT OBJECTIVES & OTHER INFORMATION ON BACK.

ADMINISTRATIVE DETAILS:

COMPANY CONTACT: JERARD KENT PARTNER 941-665-8242
Name Title Phone Number

MAIL ADDRESS: P. O. BOX 2211
Street Address

LAKELAND, FLORIDA 33806
City State Zip Code

LOCATION OF RECORDS: JACQUE LANE (OFF SR 540) call for directions
City State

AUDIT DUE DATE: 3/31/99

COORDINATING DETAILS: Richard Redemann (engineer) and Samatha McRae (attorney)
(Name and Phone Number of other Division staff and any other administrative instructions)

REFERENCES: Order No. PSC-96-1568-FOF-WS
(Attach copies of FPSC ORDERS and other documents as appropriate)

BACKGROUND INFORMATION:

This application concerns a proposed transfer of facilities from Village Water, Ltd (a partnership) to AquaSource Utility, Inc. A rate base determination is needed. The utility's annual report shows a 12/31/97 net rate base of \$90,267 (copy enclosed). The reported purchase price is \$576,000. A present value of \$1,353,761 was reported (copy enclosed). AquaSource is not requesting rate base inclusion of an acquisition adjustment.

Village Water's 1996 annual report showed an unusual feature regarding CIAC - a \$250,154 credit to CIAC (from the Department of Transportation) and a \$233,328 debit to offset that balance. CIAC was fully erased in 1997. These entries suggest some misunderstanding regarding the nature of contributions in aid of construction. Obtain copies of accounting entries to help explain those balances.

The 97 annual report and the present value report show somewhat similar length of lines, but vastly different values. This may indicate unrecorded contributions of lines. For depreciation purposes, Village Water uses tax depreciation (MACRS) rates. Since rate base has not been established, those rates may be proper, but for comparison purposes, provide approximate balances using guideline rates.

There are major differences in reported land values, which may be due to replacement value assumptions. Replacement values should be ignored when actual costs are known.

Obtain copies of recent tax returns as support for actual cost details.