

MEMORANDUM

February 9, 1999

ORIGINAL

TO: DIVISION OF RECORDS AND REPORTING

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

RE: DOCKET NO 981265-SU - HACIENDA VILLAGE UTILITIES, INC.
AUDIT REPORT - CERTIFICATE TRANSFER - AS OF OCTOBER 8, 1998
AUDIT CONTROL NO. 98-313-2-1

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:

Hacienda Village Utilities, Inc.
Sam Hachem
6939 Hachem Drive
Port Richey, FL 34668-1398

DNV/sp

Attachment

cc: Legal Services
Division of Auditing and Financial Analysis (Devlin/Causseaux/
File Folder)
Division of Water and Wastewater (Johnson)
Tampa District Office (McPherson)

Research and Regulatory Review (Harvey)
Office of Public Counsel

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING



**FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING**

TAMPA DISTRICT OFFICE

HACIENDA VILLAGE UTILITIES, INC.

CERTIFICATE TRANSFER

AS OF OCTOBER 8, 1998

DOCKET NO. 981265-SU

A handwritten signature in black ink, appearing to read "V. C. Aldridge", written over a horizontal line.

**Vincent C. Aldridge
Audit Manager**

A handwritten signature in black ink, appearing to read "James A. McPherson", written over a horizontal line.

**James A. McPherson
Regulatory Analyst Supervisor
Tampa District**

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

JANUARY 20, 1999

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare and audit a schedule of Wastewater Rate Base as of October 8, 1998 for Hacienda Village Utilities, Inc.'s petition for transfer of Certificate No. 285-S; FPSC Docket 981265-SU. 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 schedule referred to above presents fairly, in all material respects, the utility'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

Rate base balances authorized in FPSC Order No. 93-0375-FOF-SU were not reflected on the utility's books and records. The utility does not maintain its books and records in conformity with the NARUC Uniform System of Accounts as required by Rule 25-30.115, Florida Administrative Code and by FPSC Order No. 93-0375-FOF-SU. The utility was not using guideline depreciation rates as required by Rule 25-30.140, Florida Administrative Code. A \$35,000 plant addition recorded in 1996 was not supported by any substantiating documentation.

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:

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

Confirmed- Evidential matter supporting an account balance, transaction, or other information was obtained directly from an independent third party.

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

RATE BASE: Compiled account balances for utility plant in service, contributions in aid of construction (CIAC), accumulated depreciation and accumulated amortization of CIAC from June 30, 1992. Examined supporting documentation for all plant additions since June 30, 1992. Computed depreciation of plant and amortization of CIAC from June 30, 1992 through October 8, 1998 as provided for in Rule 25-30.140, Florida Administrative Code.

OTHER: Confirmed ownership of utility property by checking land records at the Pasco County courthouse. Verified that utility was using approved rates and service availability charges. Inquired as to whether any assets on the seller's books were not being transferred.

Disclosure No. 1

Subject: Non-Regulation of Hacienda Village Utilities, Inc.'s Water System

Statement of Fact: Chapter 367.022(5), Florida Statutes, specifically exempts "landlords providing service to their tenants without specific compensation for the service" from regulation by the Public Service Commission as a utility. Currently, the PSC only regulates the wastewater side of Hacienda Village Utilities, Inc.

Opinion: Hacienda Village Utilities, Inc. provides water and wastewater service to its tenants of the Hacienda Village Mobile Home Park. In addition, the utility provides wastewater service for approximately 46 other houses in a residential area adjacent to the mobile home park. Because the utility provides water service solely to its tenants without specific compensation, the water side of the utility is exempt from PSC regulation by this statute. However, because the utility provides wastewater service to tenants *and* non-tenants alike, it is not similarly exempted from PSC regulation by the above-mentioned statute.

Conclusion: This information is provided to help explain the regulatory relationship that exists between the PSC and Hacienda Village Utilities, Inc.

Disclosure No. 2

Subject: Plant and Land Accounts

Statement of Fact: The Commission set rate base for the utility after a staff assisted rate case with FPSC Order No. 93-0375-FOF-SU, issued March 11, 1993. This order determined wastewater plant and land to total \$355,373 (\$311,931+\$43,442). The utility did not adjust its books and records to reflect the required rate base. The utility has recorded two plant additions since then, one in 1994 for \$575 and one in 1996 for \$35,000. The utility has not had any land additions.

Opinion: Documentation supported the \$575 plant addition in 1994. The utility was unable to provide support for the \$35,000 addition. It should not be included in rate base.

The utility does not maintain its books and records in conformity with the NARUC Uniform System of Accounts as required by Rule 25-30.115, Florida Administrative Code, and by FPSC Order No. 93-0375-FOF-SU. There are two main problems. First, all of the utility's assets, except for the 1994 \$575 addition, are recorded in one general ledger account- 212. Second, the utility's plant should be recorded at original cost when placed in service as required by the prior FPSC Order. General ledger account 212 has a \$535,000 account balance. This amount reflects the \$500,000 price paid for the utility in 1992 plus the unsubstantiated 1996 \$35,000 addition. In its annual reports, the utility simply allocates 25% (\$125,000) of the purchase price to the unregulated water system and 75% (\$375,000) of the price to the wastewater system.

Conclusion: The utility's plant and land accounts should be adjusted to reflect the balances approved by the Commission with FPSC Order No. 93-0375-FOF-SU, issued March 11, 1993.

The utility's application for transfer of its wastewater certificate included proposed rate base figures as of December 31, 1997 based on its 1997 annual report. There was no activity in the plant or land accounts from that date through the closing/transfer date of October 8, 1998. A summary of the proposed adjustments follows:

Plant in Service per Utility's 1997 Annual Report		\$410,575
Less: Unsupported 1996 plant addition	(\$35,000)	
Less: Adjustment for 1992 purchase price markup	(\$19,627)	
Reclassify: Land included in Plant account	(\$43,442)	
		<u>(\$98,069)</u>
Plant in Service Per auditor		<u>\$312,506</u>

Disclosure No. 3

Subject: Accumulated Depreciation

Statement of Fact: Hacienda Village Utilities, Inc. did not adjust its books and records to reflect the rate base set by the commission following a staff assisted rate case with FPSC Order No. 93-0375-FOF-SU. The utility has not been depreciating plant using guideline rates as required by Rule 25-30.140, Florida Administrative Code.

Opinion and Conclusion: The utility's books and records reflect incorrect plant balances being depreciated at incorrect rates. The accumulated depreciation accounts have been recalculated using approved rates and balances.

The utility's application for transfer of its wastewater certificate included proposed rate base figures as of December 31, 1997. The following reflects proposed adjustments to accumulated depreciation accounts. It also shows additional accumulation of depreciation through the closing/transfer date of October 8, 1998. A summary of the proposed adjustments follows:

Accumulated depreciation per utility @ 12/31/97:	(\$155,693)
Recalculation of accumulated depreciation with correct plant balances per prior order and using guideline rates:	(<u>\$17,134</u>)
Accumulated depreciation per PSC @ 12/31/97:	(\$172,827)
Additional accumulated depreciation 12/31/97-10/08/98:	(<u>\$8,907</u>)
Accumulated depreciation per PSC @ 10/08/98:	(<u>\$181,734</u>)

Disclosure No. 4

Subject: CIAC

Statement of Fact: Hacienda Village Utilities, Inc. does not maintain any CIAC or related amortization of CIAC accounts. FPSC Order No. 93-0375-FOF-SU, issued March 11, 1993 set balances of CIAC, accumulated amortization of CIAC and service availability charges to be used for new line connections.

Opinion and Conclusion: There was one new line connection in 1992, five in 1993 and one in 1998 prior to the closing/transfer date of October 8, 1998. The following adjustments are proposed:

CIAC Per FPSC Order No. 93-0375-FOF-SU	(\$30,364)
Six connections @ \$700 per connection	<u>(\$4,200)</u>
CIAC per PSC @ 12/31/97	(\$34,564)
One connection in 1998 @ \$700 per connection	<u>(\$700)</u>
CIAC per PSC @ 10/08/98	<u>(\$35,264)</u>
Amortization of CIAC Per FPSC Order No. 93-0375-FOF-SU	\$9,515
Remove averaging adjustment from order	\$784
Amortization of CIAC 6/30/92-12/31/97 using composite rate	<u>\$10,997</u>
Amortization of CIAC per PSC @ 12/31/97	\$21,296
Amortization of CIAC 12/31/97-10/08/98 using composite rate	<u>\$1,019</u>
Amortization of CIAC per PSC @ 10/08/98	<u>\$22,315</u>

Disclosure No. 5

Subject: Acquisition Adjustment/Allocation of Purchase Price

Statement of Fact: Hacienda Village Utilities, Inc. (Seller) sold its assets to Hacienda Utilities, Ltd. (Buyer) on October 8, 1998 for \$800,000. Audited wastewater rate base on October 8, 1998 is \$161,265. Unaudited water net rate base per the utility's annual report on December 31, 1997 is \$73,686.

Opinion and Conclusion: No attempt was made to allocate the excess of the purchase price of the utility over the net rate base. Normally, such amounts would be recorded in Account 114, Utility Plant Acquisition Adjustments. The question would then be whether to include the acquisition adjustment in rate base. The needed computations would be complicated here by the fact that only the wastewater side of the utility is regulated. The acquisition adjustment would need to be allocated between the water and wastewater sides of the utility. This could only be done after a dollar amount was allocated to the water side of the utility for the purchase of its assets. Because we have not audited the water side of the utility, an attempt to make these allocations would to a large extent be arbitrary and therefore was not done. Besides, there are no extraordinary circumstances regarding the purchase that would justify an acquisition adjustment to rate base and the Buyer specifically stated in its application for transfer of its wastewater certificate that it was not seeking an acquisition adjustment.

HACIENDA VILLAGE UTILITIES, INC.

Exhibit I

DOCKET NO. 981265-SU

CERTIFICATE TRANSFER

RATE BASE

AS OF OCTOBER 8, 1998

Hacienda Village Utilities, Inc. Wastewater Rate Base as of 10/08/98

	Per Utility's Ann Report 12/31/97	Audit Adjustments	Ref	Per PSC @ 12/31/97	Activity Through 10/08/98	Ref	Per PSC @ 10/08/98
Plant in Service- Wastewater	410,575	(98,069)	Disc 2	312,506	0		312,506
Land	0	43,442	Disc 2	43,442	0		43,442
Acc Depreciation of Plant	(155,693)	(17,134)	Disc 3	(172,827)	(8,907)	Disc 3	(181,734)
CIAC	0	(34,564)	Disc 4	(34,564)	(700)	Disc 4	(35,264)
Amortization of CIAC	0	21,296	Disc 4	21,296	1,019	Disc 4	22,315
Net Wastewater	254,882	(85,029)		169,853	(8,588)		161,265
*Water Plant	125,000						
*Acc Depreciation of Water Plant	(51,314)						
Net Water	73,686						
Rate Base Per Cert Trans Appl	328,568						

*Utility water system information needed to arrive at rate base proposed by utility in its certificate transfer application

*The water system is not regulated by the PSC and was not audited.

STATE OF FLORIDA

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



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

Public Service Commission

February 10, 1999

Sam Hachem, President
Hacienda Village Utilities, Inc.
6939 Hachem Drive
Port Richey, Florida 34668-1398

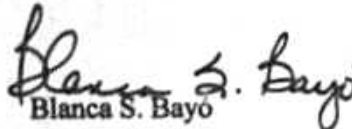
Re: Docket No. 981265 - SU - Hacienda Village Utilities, Inc.
Audit Report - Certificate Transfer - As of October 8, 1998
Audit Control # 98-313-2-1

Dear Mr. Hachem:

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. Bayo

BSB/abf
Enclosure
cc: Division of Audit and Financial Analysis
John Wharton, Esquire