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AUDITING & FINANCIAL ANALYSIS
(850) 413-6480

Public Service Commission

February 25, 1999

Ms. Connie L. Hurlburt
Tangerine Water Company, Inc.
P. O. Box 304
Tangerine, FL 32777-0304

Re: Docket No. 981663-WU; Tangerine Water Company, Inc.

Dear Ms. Hurlburt:

The enclosed audit report is forwarded for your review. If you desire to file a response to the audit, please file one with the Division of Records and Reporting so it may be forwarded for consideration by the staff analysts in their review of the audit.

Sincerely,

Denise N. Vandiver
Bureau Chief - Auditing

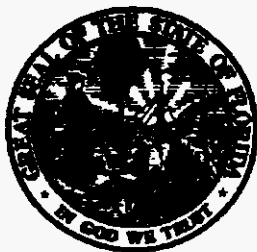
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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING*

Orlando District Office

TANGERINE WATER COMPANY, INCORPORATED

STAFF-ASSISTED RATE CASE

PERIOD ENDED DECEMBER 31, 1998

**DOCKET NO. 981663-WU
AUDIT CONTROL NO. 98-356-3-1**

A handwritten signature in black ink, appearing to read "Jeffrey A. Small".

Jeffery A. Small, Audit Manager

A handwritten signature in black ink, appearing to read "Ian J. Forbes".

Ian J. Forbes, District Audit Supervisor

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

FEBRUARY 17, 1999

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare schedules of Rate Base, Net Operating Income, and Capital Structure as of December 31, 1998, for Tangerine Water Company, Inc. These schedules were prepared by audit staff as part of the utility's application for a Staff-Assisted Rate Case in Docket No. 981663-WU. 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 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

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

The utility's average utility-plant-in-service and accumulated depreciation balances for water operations are \$159,615 and (\$74,304), respectively, for the period ended December 31, 1998. Additionally, the associated depreciation expense of UPIS for water operations for the test year ended December 31, 1998, is \$6,242.

The utility's average contributions-in-aid-of-construction (CIAC) and accumulated amortization of CIAC balances for water operations are (\$57,698) and \$22,662, respectively, for the period ended December 31, 1998. Additionally, the associated amortization expense of CIAC for water operations for the test year ended December 31, 1998, is (\$2,256).

The utility's revenues from water operations are \$38,340 for the test year ended December 31, 1998.

The utility's operations and maintenance expenses for water operations are \$35,196 for the test year ended December 31, 1998. Additionally, the utility's working capital balance for water operations is \$4,399 for test year ended December 31, 1998.

The utility's taxes other than income for water operations are \$4,608 for test year ended December 31, 1998.

The utility's average capital structure is composed entirely of equity in the amount of \$54,674 with a weighted average cost rate of 8.570 percent for the period ended December 31, 1998.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining the utility's books and records since its last rate proceeding for the period ended November 30, 1984, 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.

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

Assembled - Presented in Commission-required format financial information that was provided to audit staff and is the representation of utility management.

RATE BASE: Scanned and verified 100 percent of utility-provided documents used to assemble water and wastewater account balances for utility-plant-in-service (UPIS), land and land rights, contributions-in-aid-of-construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and working capital for the period ended December 31, 1998.

NET OPERATING INCOME: Scanned and verified 100 percent of utility-provided documents used to assemble water and wastewater account balances for utility revenues, operations and maintenance expenses, depreciation expenses, amortization expenses, and taxes other than income for the test year ended December 31, 1998. Recomputed an auditor-determined sample of utility billing records to verify the existing rates, miscellaneous service charges, and service availability fees charged by the utility.

CAPITAL STRUCTURE: Scanned and verified 100 percent of utility-provided documents used to assemble its capital structure for the period ended December 31, 1998.

OTHER: Audited the utility's 1997 Regulatory Assessment Fee return filed with the Commission.

Audit Exception No. 1

Subject: Noncompliance with the NARUC Uniform System of Accounts

Statement of Facts: Tangerine Water Company, Inc.'s general ledgers are maintained internally on a cash basis for income tax purposes.

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).

NARUC, Class C, Accounting Instruction 2. A, requires all water and wastewater utilities to maintain their accounts on an accrual basis.

Opinion/Recommendation: Tangerine Water Company, Inc.'s general ledger accounting system does not readily reconcile to the USoA because of multiple differences in accounting methods and treatments between income tax basis and the USoA/Commission basis of accounting for utility operations.

At year-end, the utility transfers its "income tax basis" financial statements to the FPSC annual report. Audit staff reconciled the utility's 1997 FPSC annual report to the corresponding year's tax return.

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

Audit Exception No. 2

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

Statement of Facts: Tangerine Water Company, Inc.'s accounting records do not specifically identify UPIS and the associated accumulated depreciation balances for its water operations.

Rule 25-30.140 (2), F.A.C., establishes depreciation rates for water utilities.

Opinion/Recommendation: The utility provided sufficient historical records and supporting source documentation for audit staff to assemble UPIS and associated accumulated depreciation for its water operations as of December 31, 1998.

Audit staff has determined the following from the above information:

- 1) The average balance for water UPIS is \$159,615 for period ended December 31, 1998.
- 2) The average balance for water accumulated depreciation of UPIS is (\$74,304) for period ended December 31, 1998.

See the attached schedule for details.

Additionally, audit staff has determined from preparing the period ended UPIS accumulated depreciation balance that the depreciation expenses applicable for the test year ended December 31, 1998, are \$6,242 for its water operations.

**Schedule for
Audit Exception No. 2**

**Average Utility-Plant-in-Service -Water
Period Ended December 31, 1998**

<u>Acc No.</u>	<u>Account Description</u>	<u>Plant</u>	<u>Acc/Dep</u>
304.00	Structures & Improvements	\$3,709.85	(\$1,598.23)
307.00	Wells & Springs	9,274.78	(1,806.41)
309.00	Supply Mains	10,110.47	(6,433.93)
310.00	Power Generation Equipment	13,364.00	(3,900.00)
311.00	Pumping Equipment	15,523.16	(6,392.33)
320.00	Water Treatment Equipment	2,973.57	(1,510.08)
330.00	Distribution Reservoirs & Standpipes	27,941.72	(11,285.50)
331.00	Transmission & Distribution Mains	57,903.39	(31,292.05)
334.00	Meters & Meter Installations	16,463.30	(9,717.41)
335.00	Hydrants	1,045.16	(247.00)
340.00	Office Furniture & Equipment	1,017.77	(75.67)
343.00	Tools, Shop and Garage Equipment	238.50	(8.00)
348.00	Other Tangible Plant	<u>48.92</u>	<u>(37.01)</u>
	Totals	\$159,614.59	(\$74,303.62)

Audit Exception No. 3

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

Statement of Facts: The utility's original tariff, approved by Division of Water & Wastewater, Order No. WS-292 on May 20, 1975, established a service availability charge of \$150 per customer connection.

Order No. 14376, issued on May 16, 1985, established the following service availability charges for the utility effective June 21, 1985.

<u>Type</u>	<u>Water</u>
Meter Installation	\$100
Plant Capacity Charge	\$100

Utility records indicate that it has added 73 water customers since its last rate proceeding. Of the 73 new customers, four were added prior to the effective date of the Order No. 14376 cited above.

Utility records further indicate that it assumed control over several line extensions that were installed at the cost of outside developers in 1985, 1986, 1989, and 1992.

Opinion/Recommendation: The utility provided sufficient historical records and supporting source documentation for the audit staff to assemble its CIAC and associated accumulated amortization of CIAC for the water and wastewater utilities as of December 31, 1998.

The utility should be required to record the following amounts for average CIAC and amortization of CIAC as determined by audit staff's calculations for period ended December 31, 1998.

<u>Account</u>	<u>CIAC</u>	<u>Amortz. CIAC</u>
Water	(\$57,698)	\$ 22,662

Schedule for Audit Exception No. 3

**Average Contributions-In-Aid-Of-Construction
Period Ended December 31, 1998**

A	B	C	D	E	F	G	H	I	J
Period Ending	Beginning CIAC	Beginning Amortz.	New Customers	Customer Additions	Line Extensions	Ending CIAC	Amortz. Rate	Amortz. Additions	Ending Amortz.
	(Note 1)	(Note 1)		(Note 2)	(Note 3)	(Note 4)	(Note 5)	(Note 6)	(Note 7)
1984	22,239	7,669	0	0	0	22,239	2.500%	46	7,715
1985	22,239	7,715	4	600	200	23,039	2.500%	566	8,281
1986	23,039	8,281	5	1,000	950	24,989	2.500%	600	8,882
1987	24,989	8,882	2	400	0	25,389	2.500%	630	9,511
1988	25,389	9,511	8	1,600	0	26,989	2.500%	655	10,166
1989	26,989	10,166	7	1,400	18,424	46,813	2.500%	923	11,089
1990	46,813	11,089	2	400	0	47,213	2.500%	1,175	12,264
1991	47,213	12,264	3	600	0	47,813	2.500%	1,188	13,452
1992	47,813	13,452	11	2,200	1,985	51,998	2.500%	1,248	14,699
1993	51,998	14,699	4	800	0	52,798	2.500%	1,310	16,009
1994	52,798	16,009	9	1,800	0	54,598	2.500%	1,342	17,352
1995	54,598	17,352	4	800	0	55,398	2.500%	1,375	18,727
1996	55,398	18,727	3	600	0	55,998	2.500%	1,392	20,119
1997	55,998	20,119	6	1,200	0	57,198	2.500%	1,415	21,534
1998	57,198	21,534	5	1,000	0	58,198	3.911%	2,257	23,791
						Average		Average	
						57,698			22,662

Note 1 Beginning balances in 1984 are from prior Order No. 14376

Note 2 Customer additions were determined by multiplying the number of new customers times the service availability charge. (1984-85: \$150 - 1986-98: \$200)

Note 3 Line extension amounts were determined from utility records.

Note 4 Sum of columns (B+E+F)

Note 5 Amortization rate for 1984-97 determined from prior Order No. 14376
Test year 1998 per Rule 25-30.140 8(a)

Note 6 1984- Product of ((B+G)/2*H)/12 months or 1985-98 - Product of ((B+G)/2*H)

Note 7 Sum of columns (C+I)

Audit Exception No. 4

Subject: Revenues

Statement of Facts: Tangerine Water Company, Inc.'s records indicate revenues of \$45,746 for water operations at test year ended December 31, 1998.

Opinion/Recommendation: Tangerine Water Company, Inc.'s reported revenues were derived using a cash basis of accounting for federal income tax purposes as previously described in Audit Exception 1 of this report.

The utility's revenues for the test year ended December 31, 1998, are not properly stated per the USoA and the Commission rules cited previously in this report.

The utility provided audit staff with access to its billing registers and other utility records to assemble its revenues for the test year.

Audit staff has calculated utility revenues of \$38,340 for its water operations for the test year ended December 31, 1998.

Audit Exception No. 5

Subject: Operating and Maintenance Expenses

Statement of Facts: Tangerine Water Company, Inc.'s records indicate operations and maintenance (O&M) expenses of \$37,450 for water operations at test year ended December 31, 1998.

Opinion/Recommendation: Tangerine Water Company, Inc.'s reported O&M expenses were derived using a cash basis of accounting for federal income tax purposes as previously described in Audit Exception 1 of this report.

The utility's O&M expenses for the test year ended December 31, 1998, are not properly stated per the USoA and the Commission rules cited previously in this report.

The utility provided auditor with access to all invoices, canceled checks, and other utility records to assemble its operations and maintenance expenses for the test year ended December 31, 1998.

Audit staff has calculated utility O&M expenses of \$35,196 for water operations for test year ended December 31, 1998.

Additionally, per Rule 25-30.433 (4), F.A.C., the utility's working capital balance for rate base purposes was calculated as one-eighth of the above O&M expenses which amounts to \$4,399 for water operations.

See attached schedule for details and subaccount balances.

**Schedule for
Audit Exception No. 5**

**Operation and Maintenance Expenses
Test Year Ended December 31, 1998**

<u>Acc No.</u>	<u>Account Description</u>	<u>Total Water Expense</u>
601	Salaries & Wages - Employees	\$12,232.46
603	Salaries & Wages - Officers	1,400.00
615	Purchased Power	7,825.74
616	Fuel for Power Production	42.56
618	Chemicals	1,819.20
620	Materials & Supplies	2,583.44
630	Contractual Services - Billing	0.00
631	Contractual Services - Professional	0.00
635	Contractual Services - Testing	578.33
636	Contractual Services - Other	3,075.70
640	Rents	3,198.79
650	Transportation Expense	360.00
655	Insurance Expense	964.93
665	Regulatory Commission Expense	392.09
670	Bad Debt Expense	613.37
675	Miscellaneous Expense	<u>109.05</u>
	Total Expenses	\$35,195.66

Audit Exception No. 6

Subject: Taxes Other Than Income

Statement of Facts: Tangerine Water Company, Inc.'s taxes other than income (TOTI) for the test year were undeterminable using the utility's general ledgers.

The utility is required to pay annual tax assessments to the following governmental entities during the course of its operations.

Orange County

- + Tangible personal property tax on utility property based on an assessed value

State of Florida

- + Corporation filing fee to the Department of State
- + Regulatory Assessment Fee (RAF) to the Florida Public Service Commission
- + State Intangible Tax to Department of Revenue
- + State Emergency Response Fee to Department of Environmental Protection

U.S. Government

- + Employee payroll tax to Department of Treasury

Opinion: The utility provided audit staff with access to all invoices, canceled checks, and other utility records to assemble its TOTI for the test year ended December 31, 1998.

Additionally, audit staff calculated the utility's RAFs based on 4.5 percent of the estimated revenues determined in Audit Exception No. 4 of this report.

Using the information provided above, audit staff has determined that the utility's TOTI amounts are \$4,608 for water operations for test year ended December 31, 1998. See details illustrated below.

<u>Governmental Authority</u>	<u>Assessment</u>	<u>Total Amount</u>
Orange County	Property tax	\$1,376.37
Dept. of State	Corporation Filing Fee	150.00
FPSC	RAFs	1,725.00
Dept. of Revenue	Intangible tax	121.94
Dept. Env. Prot	Emergency response fee	40.00
Dept. of Treasury	Payroll taxes	<u>1,194.21</u>
	Totals	\$4,607.52

Audit Exception No. 7

Subject: Capital Structure

Statement of Facts: The utility's books indicate a combined owners' equity from utility operations of \$56,798 as of December 31, 1997.

Utility records did not calculate owners' equity for the test year ended December 31, 1998.

The utility has no outstanding long-term or short-term debt.

Opinion/Recommendation: The utility's reported owners' equity for 1997 was calculated using a cash basis of accounting for federal income tax purposes as previously described in Audit Exception 1 of this report.

The utility's balance for owners' equity for year-end December 31, 1997, is not properly stated per the USoA and the Commission rules cited previously in this report.

The utility's average owners' equity should be recorded as \$54,674 for period ended December 31, 1998, for rate making purposes which reconciles to the utility's average rate base as calculated in Exhibit 1 of this report.

Audit Disclosure No. 1

Subject: Customer Deposits

Statement of Facts: The utility's tariff, Original Sheet 13.0, Item 25.0, approved by Division of Water & Wastewater, Order No. WS-292 on May 20, 1975, states the following:

The amount of such deposit shall be NONE or an amount necessary to cover minimum charges for service for three (3) billing periods, whichever is greater.

The company will pay interest on customer deposits at the rate of NONE percent per annum.

In 1992, the utility instituted a program where deposits were collected from new customers requesting water service. The amount of deposit collected ranges from \$10 to \$375. No interest was ever paid on any customer deposits to date.

The utility has collected and retained \$5,925 in customer deposits since 1992.

Opinion/Recommendation: The Commission-approved tariff mentioned above is contradictory.

The tariff, as stated above, does not allow the utility to collect a customer deposit, OR, allows the utility to collect an amount to equal to three billing periods, whichever is greater.

Additionally, outstanding interest on the above deposits, if calculated using interest rates prescribed by Rule 25-30.311(4)(a), F.A.C., for the effected years, is \$933 at test year-end December 31, 1998.

Auditor defers this issue to the analyst in Tallahassee for further action.

Audit Disclosure No. 2

Subject: Pro Forma Water Operations & Maintenance Expenses

Statement of Facts: On January 5, 1999, the utility received notification from the State Department of Environmental Protection (DEP) of all known future water testing requirements for the next four years.

On January 8, 1999, Flowers Chemical Laboratories, Inc., the utility's water testing service, provided a new price quote sheet for the testing services it provides.

Opinion/Recommendation: The effects of the above information on the utility's water testing expense in 1999 and beyond could not be determined by audit staff.

Additionally, during fieldwork utility officials discussed the option of requesting a change in customer billing cycles from quarterly to semimonthly or monthly.

The effects of any such change in billing cycles would increase utility operations expenses for meter reading, billing, postage, and miscellaneous office supplies.

Auditor forwards this information to the analyst and engineer in this rate proceeding for their consideration.

Audit Disclosure No. 3

Subject: 1997 Regulatory Assessment Fees

Statement of Facts: Tangerine Water Company, Inc. sent a check for \$1,417.50 to the Commission for the regulatory assessment fees (RAF) calculated on an estimated \$31,500 in water revenues for 1997.

On May 21, 1998, the utility sent in a revised actual return that indicates a RAF fee of \$1,179.34 calculated on \$26,207.49 in water revenues for 1997. It is seeking a refund of \$238.16 in overpaid RAF fees.

Commission staff confirms receipt of the utility's requested refund but has not acted on its request as of February 12, 1999.

Opinion/Recommendation: Tangerine Water Company, Inc.'s reported revenues were derived using a cash basis of accounting for federal income tax purposes as previously described in Audit Exception 1 of this report.

The utility reports its revenues for RAF purposes using the same methodology as described above.

The utility's revenues and subsequent RAF filing for the period ending December 31, 1997, are not properly stated per the USoA and the Commission rules cited previously in this report.

Audit staff has calculated 1997 utility revenues of \$32,184 using actual revenues from the utility's billing registers with a RAF assessment of \$1,448. ($\$32,184 \times 4.50\%$)

The difference between the RAFs already submitted by the utility and the audit-determined amount due is a \$31 underpayment. ($\$1,418$ less $\$1,448$) The difference should be considered immaterial.

However, should the utility receive its requested RAF refund of \$238, the amount of underpaid RAF's would become \$269 ($\$238 + \31) which should be considered a material difference.

Auditor forwards this information to the analyst in this rate proceeding for consideration.

EXHIBIT I

TANGERINE WATER COMPANY, INC.
DOCKET NO. 981663-WU
WATER RATE BASE
TEST YEAR ENDED DECEMBER 31, 1998
(Average)

(a) DESCRIPTION	(b) PER COMPANY(1) 12/31/98	(c) AUDIT EXCEPTION	(d) REFER TO(2)	(e) PER AUDIT 12/31/98
UTILITY-PLANT-IN-SERVICE	\$0	\$159,615	E-2	\$159,615
LAND	\$0	\$0		\$0
PLANT HELD FOR FUTURE USE	\$0	\$0		\$0
CIAC	\$0	(\$57,698)	E-3	(\$57,698)
AMORTIZATION OF CIAC	\$0	\$22,662	E-3	\$22,662
ACCUMULATED DEPRECIATION	\$0	(\$74,304)	E-2	(\$74,304)
WORKING CAPITAL(3)	\$0	\$4,399	E-5	\$4,399
TOTAL	\$0	\$54,674		\$54,674

REQUIRED FOOTNOTES:

- (1) Company balance set to zero. See Audit Exception No. 1.
- (2) Audit adjustments do not include audit disclosures.
- (3) Working Capital was calculated at 1/8 O&M expense per Commission policy.

EXHIBIT II**TANGERINE WATER COMPANY, INC.
DOCKET NO. 981663-WU
WATER NET OPERATING INCOME
TEST YEAR ENDED December 31, 1998**

(a) DESCRIPTION	(b) PER COMPANY(1) 12/31/98	(c) AUDIT EXCEPTION	(d) REFER TO(2)	(e) PER AUDIT 12/31/98
OPERATING REVENUES	\$0	\$38,340	E-4	\$38,340
OPERATING EXPENSES:				
O&M EXPENSE	\$0	\$35,196	E-5	\$35,196
DEPRECIATION EXPENSE	\$0	\$6,242	E-2	\$6,242
AMORTIZATION	\$0	(\$2,256)	E-3	(\$2,256)
TAXES OTHER THAN INCOME	\$0	\$4,608	E-6	\$4,608
INCOME TAX EXPENSE	\$0	\$0		\$0
TOTAL OPERATING EXPENSE	\$0	\$43,789		\$43,789
NET OPERATING INCOME(LOSS)	\$0	(\$5,449)		(\$5,449)

REQUIRED FOOTNOTES:

- (1) Company balance set to zero. See Audit Exception No. 1.
- (2) Audit adjustments do not include audit disclosures.

EXHIBIT III

**TANGERINE WATER COMPANY, INC.
DOCKET NO. 981663-WU
CAPITAL STRUCTURE
TEST YEAR ENDED DECEMBER 31, 1998
(Average)**

(a) DESCRIPTION	(b) PER COMPANY(1) @12/31/98	(c) AUDIT EXCEPTION	(d) REFER TO(2)	(e) PER AUDIT @12/31/98	(f) RATIO	(g) COST RATE(4)	(h) WEIGHTED COST OF CAPITAL
COMMON EQUITY (3)	\$0	\$54,674		\$54,674	100.00%	8.570%	8.570%
PREFERRED STOCK	\$0	\$0		\$0	0.00%	0.000%	0.000%
LONG-TERM DEBT	\$0	\$0		\$0	0.00%	0.000%	0.000%
SHORT-TERM DEBT	\$0	\$0		\$0	0.00%	0.000%	0.000%
CUSTOMER DEPOSITS(5)	\$0	\$0		\$0	0.00%	6.000%	0.000%
DEFERRED INCOME TAXES	\$0	\$0		\$0	0.00%	0.000%	0.000%
TOTAL	\$0	\$54,674		\$54,674	100.00%		8.570%

REQUIRED FOOTNOTES:

- (1) Company balance set to zero. See Audit Exception No. 1.
- (2) Audit adjustments do not include audit disclosures.
- (3) Common equity is set to equal utility's net rate base.

- (4) Cost rate for common equity established in Order No. PSC-98-0903-FOF-WS
- (5) The utility's tariff does not authorize the collection of customer deposits.