

STATE OF FLORIDA

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TIMOTHY DEVLIN, DIRECTOR
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Public Service Commission

July 15, 1999

Mr. Leroy K. New
Lake Yale Utility Company
11643 Martel Court
Leesburg, FL 34788-8102

**Re: Docket No. 990194-WS; Lake Yale Corporation d/b/a Lake Yale Utility Company
Audit Report; Establish Rate Base
Audit Control No. 99-079-3-2**

Mr. New:

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 Services

DNV/

cc: Division of Records and Reporting
Division of Auditing and Financial Analysis (Devlin/Causseaux/Harvey/File Folder)
Division of Water and Wastewater (Brady)
Orlando District Office (Winston)
Division of Legal Services

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FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING SERVICES***

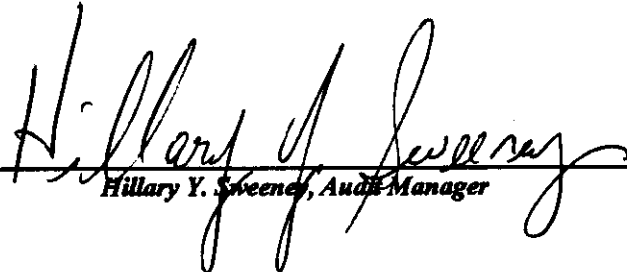
Orlando District Office

**LAKE YALE CORPORATION
D/B/A LAKE YALE UTILITY COMPANY**


ESTABLISH RATE BASE

AS OF OCTOBER 31, 1998

**DOCKET NO. 990194-WS
AUDIT CONTROL NO. 99-079-3-2**



Hillary Y. Sweeney, Audit Manager



Charleston J. Winston, District Audit Supervisor

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

JULY 8, 1999

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedules for Rate Base as of October 31, 1998. These schedules were prepared by staff as part of the utility's application for a Certificate of Transfer in Docket No. 990194-WS. 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 these schedules referred to above present fairly, in all material respects, the utility's books and records that are 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's plant-in-service is \$222,130 for water and \$353,456 for wastewater.

The utility did not use the proper depreciation rate.

The utility did not report any Contributions-in-Aid-of-Construction (CIAC) nor any accumulated amortization of CIAC.

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.

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

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

RATE BASE: Verified account balances for UPIS, CIAC, accumulated depreciation and accumulated amortization of CIAC. Reconciled rate base balances authorized in Commission Order No. PSC-94-0171-FOF-WS, issued February 10, 1994, to October 31, 1998 General Ledger and Annual Report. Verified supporting documentation for sample plant additions selected using auditor judgment. Imputed CIAC using customer growth information recorded in the Annual Report. Calculated accumulated depreciation and accumulated amortization of CIAC using Commission-approved rates.

Audit Exception No. 1

Subject: Noncompliance with the NARUC Uniform System of Accounts

Statement of Facts: Lake Yale Corporation serves as the principal entity for Lake Yale Utility Company and Lake Yale & Sand Piper Mobile Home Community.

Sand Piper Mobile Home Park and the servicing utility were built in 1967. In 1988, the owner of the neighboring mobile home park (Lake Yale) and utility went bankrupt. This mobile home park and the utility located on it were purchased as a packaged deal in a foreclosure. At no point were the amounts for land and the utility separated.

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: The utility does not maintain its books per the Commission rule cited above. Although Lake Yale Corporation maintains a general ledger, it does not identify plant accounts consistent with the USoA. Accumulated depreciation was calculated using the wrong depreciation rates. Also, the utility failed to book CIAC as authorized in Order No. PSC- 94-0171-FOF-WS.

Lake Yale's primary business is the mobile home parks. The operation of the utility is incidental to owning the mobile home park. Lake Yale's staff has limited technical knowledge and financial wherewithal to maintain the utility's books in conformance with the PSC's accounting system.

The utility should be required to maintain its books and records using account numbers and descriptions as prescribed in the USoA.

Audit Exception No. 2

Subject: Accumulated Depreciation on UPIS

Statement of Facts: The utility applied a 15-year service life to Plant Accounts 304 through 335 and 354 through 380 in calculating accumulated depreciation.

Opinion/Recommendation: The utility's accumulated depreciation for the period ended October 31, 1998, is not properly recorded per Commission Rule 25-30.140 (2) for Class C Utilities.

Audit staff has recalculated accumulated depreciation using the appropriate rates as set by the Commission. Accumulated depreciation is \$ 76,867 for water and \$175,709 for wastewater.

	Per Company Books	Recommended Adjustment	Per Auditor
Water	(\$101,989)	\$25,122	(\$76,867)
Wastewater	(147,572)	(28,137)	(175,709)

Audit Exception No. 3

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

Statement of Facts: The utility did not record any CIAC to its general ledger.

In 1993, the St. Johns Water Management District determined that water consumption by the customers of Lake Yale Utility was excessive and ordered the utility to install individual meters in order to promote conservation. In accordance with this directive, the utility petitioned the Commission for a certificate.

Commission Order No. PSC-94-0171-FOF-WS, issued February 10, 1994, granted Lake Yale Utility a certificate and established rates. Included in the rates were service availability charges for meters and meter installation and plant capacity.

Opinion/Recommendation: The utility should have been collecting CIAC and recording accumulated amortization of CIAC for the periods beginning April 1994 through October 1998 per the above Order.

Using the figures for additional customers recorded in the Annual Report, the audit staff has imputed CIAC and calculated the associated accumulated amortization of CIAC applying the appropriate rates.

Water - per auditor

CIAC	\$93,690
Accumulated amortization of CIAC	12,889

Wastewater - per auditor

CIAC	\$102,850
Accumulated amortization of CIAC	10,039

EXHIBIT I**LAKE YALE UTILITY COMPANY
DOCKET NO. 990194-WS
WATER RATE BASE
PERIOD ENDED 10/31/98**

(a) DESCRIPTION	(b) PER UTILITY 10/31/98	(c) AUDIT EXCEPTION	(d) REFER TO	(e) PER AUDIT 10/31/98
UTILITY PLANT-IN-SERVICE	\$222,130	\$0		\$222,130
LAND	0	0		0
ACCUMULATED DEPRECIATION	(101,989)	25,150	E-1	(76,839)
CIAC	0	(93,690)	E-2	(93,690)
ACCUMULATED AMORT. OF CIAC	0	12,889	E-2	12,889
 RATE BASE	 \$120,141	 (\$55,651)		 \$64,490

EXHIBIT II**LAKE YALE UTILITY COMPANY
DOCKET NO. 990194-WS
WASTEWATER RATE BASE
PERIOD ENDED 10/31/98**

(a) DESCRIPTION	(b) PER UTILITY 10/31/98	(c) AUDIT EXCEPTION	(d) REFER TO	(e) PER AUDIT 10/31/98
UTILITY PLANT-IN-SERVICE	\$353,548	\$0		\$353,548
LAND	0	0		0
ACCUMULATED DEPRECIATION	(147,572)	(27,788)	E-1	(175,360)
CIAC	0	(102,850)	E-2	(102,850)
ACCUMULATED AMORT. OF CIAC	0	10,039	E-2	10,039
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RATE BASE	\$205,976	(\$120,599)		\$85,377
	=====	=====		=====