

State of Florida



Public Service Commission

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

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**DATE:** February 7, 2001  
**TO:** Division of Regulatory Oversight (Johnson)  
**FROM:** Division of Regulatory Oversight (Vandiver) *W*  
**RE:** 001551-WS; Highlands Ridge Associates, Inc.  
Audit Report; Certificate Transfer - as of December 31, 2000  
Audit Control No. 00-299-3-2

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Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, they should send it to the Division of Records and Reporting. There are no confidential work papers associated with this audit.

DNV/sp

Attachment

cc: Division of Regulatory Oversight (Hoppe/Harvey/File Folder)  
Orlando District Office (Winston)  
✓ Division of Records and Reporting  
Division of Legal Services

Highlands Ridge Associates, Inc.  
Rob Reed  
3003 East Fairway Vista Drive  
Avon Park, FL 33825-6001

Rose Law Firm  
Attn: Martin Friedman  
2548 Blairstone Pines Drive  
Tallahassee, FL 32301

DOCUMENT NUMBER-DATE

01855 FEB-86

FPSC-RECORDS/REPORTING



**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF REGULATORY OVERSIGHT  
BUREAU OF AUDITING SERVICES*

*TAMPA DISTRICT OFFICE*

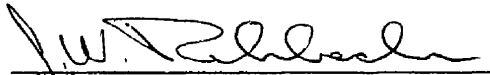
**HIGHLANDS RIDGE ASSOCIATES, INC.**

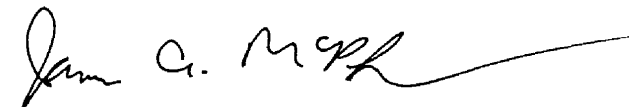
**CERTIFICATE TRANSFER**

**AS OF DECEMBER 31, 2000**

**DOCKET NO. 001551-WS**

**AUDIT CONTROL NO. 00-299-3-2**

  
\_\_\_\_\_  
*Joseph W. Rohrbacher, Audit Manager*

  
\_\_\_\_\_  
*James A. McPherson, Tampa District Supervisor*

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**DIVISION OF REGULATORY OVERSIGHT  
AUDITOR'S REPORT**

**JANUARY 26, 2001**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to prepare and audit schedules of Water and Wastewater Rate Base as of December 31, 2000 for Highlands Ridge Associates, Inc.'s petition for transfer of Certificate Nos. 544-W and 474-S. These schedules were prepared by the auditor as part of the utility's petition for Certificate Transfer in Docket No. 001551-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 document must 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.

## **SUMMARY OF SIGNIFICANT FINDINGS:**

The utility is not in compliance with Rule 25-30.115, F.A.C., requiring all water and wastewater utilities to maintain their accounts and records in conformity with the NARUC Uniform System of Accounts (USOA).

The company used a "preliminary draft" of staff *recommended* adjustments instead of the approved *Commission* adjustments in adjusting its books in response to a prior audit.

## **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.

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

**RATE BASE:** Prepared a schedule and compiled account balances for Utility-Plant-in-Service (UPIS), Contributions-in-Aid-of-Construction (CIAC), accumulated depreciation, and accumulated amortization of CIAC for the utility. Reconciled rate base balances to previous PSC audit balances. Reviewed for CIAC additions. Examined invoices and supporting documentation for all major plant additions. Calculated accumulated depreciation. Computed amortization of CIAC using PSC authorized rates.

**OTHER:** Toured the Utility's service area and water and wastewater plants. Determined whether an acquisition adjustment might be justified and whether any assets of the utility are not being transferred.

## **EXCEPTIONS**

### **Exception No. 1**

**Subject: Noncompliance with NARUC**

**Statement of Fact:** Rule 25-30.115, 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).

The NARUC Uniform System of Accounts, Accounting Instruction 2, states that:

The books of accounts of all water utilities shall be kept monthly on an accrual basis and shall be closed at the end of each calendar year.

Each utility shall keep its books of accounts, and all other books, records and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all facts relevant thereto.

The company's books and records are not in conformity with NARUC's account numbering system and the Commission rules in the following areas.

1. The company's account names and numbers are not consistent NARUC.
2. The utility keeps only one set books for all of its operations (utility, builder, developer, restaurant, golf club and membership fees). Utility accounting information is co-mingled with the other operations of the company.
3. Utility books of accounts are not kept monthly on an accrual basis. Utility records are not compiled until the Annual Reports are prepared.
4. CIAC was not properly recorded and has not been collected from new customers.

**Recommendation:** The Commission should require the company to maintain its books and records in conformity with the NARUC Uniform System of Accounts as prescribed by Rule 25-30.115, F.A.C.

**DISCLOSURES:**

**Disclosure No. 1**

**Subject: FPSC Order Adjustments**

**Statement of Fact:** Order No. PSC-98-1623-FOF-WS, issued December 7, 1998, established Rate Base for Highlands Ridge Associates, Inc. as of December 31, 1997.

The company obtained a "preliminary draft" of staff *recommended* adjustments for the above order and used these amounts to adjust its December 31, 1997 balance sheet and 1998 Annual Report. These adjustment amounts differed from what was stated in the actual order.

In addition, the audit findings from the prior Overearnings Investigation audit were based on a preliminary trial balance. The company made adjustments to this trial balance before closing its books. Some of these adjustments were the same as those made to adjust to the preliminary staff report. These adjustments were therefore made twice by the company.

We also made one final adjustment to reorganize the utility's plant sub accounts to agree with the prior Commission Order.

**Recommendation:** Below are the auditor's computed Rate Base amounts. Detail for the adjustments is provided on the following pages (Schedules A,B,C,). The utility should adjust its books to reflect the auditor's computed amounts for Rate Base as of December 31, 2000.

<u>Water System</u>	<u>Utility Balance</u>	<u>Audit Balance</u>	<u>Difference</u>
Plant in Service	\$577,723	\$478,457	\$(99,266)
Land	443	443	0
CIAC	(395,000)	(282,452)	112,548
Accumulated Depreciation	(105,263)	(172,160)	( 66,897)
Accum Amortization CIAC	<u>55,998</u>	<u>45,348</u>	<u>(10,650)</u>

Difference \$133,901 \$ 69,636 \$(64,265)

<u>Wastewater System</u>	<u>Utility Balance</u>	<u>Audit Balance</u>	<u>Difference</u>
Plant in Service	\$703,081	\$571,209	\$(131,872)
Land	4,434	4,434	0
CIAC	(400,945)	(354,237)	46,708
Accumulated Depreciation	( 71,785)	(204,502)	(132,717)
Accum Amortization CIAC	<u>45,262</u>	<u>55,831</u>	<u>10,569</u>

Difference \$280,047 \$ 72,735 \$(207,312)

Disclosure No. 1 (Continued)  
Schedule A

<u>WATER PLANT IN SERVICE</u>	<u>PER REVSD BAL SHEET 12-31-97</u>	<u>AUDIT ADJUST</u>	<u>SUB TOTAL</u>	<u>REORG ACCTS PER ORDER</u>	<u>PER ORDER NO. 98-1623 12-31-97</u>
301 ORGANIZATION COST	21,211		21,211	(20,817)	394
304 STRUCTURE AND IMPROVEMENTS	14,066		14,066	70,653	84,719
307 WELLS AND SPRINGS	54,141		54,141	64,177	118,318
309 SUPPLY MAINS			0	0	0
310 POWER GENERATING EQUIPMENT	46,715		46,715	(43,719)	2,996
311 PUMPING EQUIPMENT			0	0	0
320 WATER TREATMENT PLANT	43,160		43,160	11,829	54,989
330 DIST. RESERVOIR & STANDPIPES	18,500		18,500	(18,500)	0
331 TRANSMISSION & DIST. MAINS	340,796	(89,158)	251,638	(72,864)	178,774
333 SERVICES			0	0	0
334 METERS	31,970	(10,108)	21,862	9,241	31,103
344 LAB EQUIPMENT			0	0	0
	<u>570,559</u>	<u>(99,266)</u>	<u>471,293</u>	<u>0</u>	<u>471,293</u>
353 LAND & LAND RIGHTS	443		443		443
TOTAL WATER PLANT AND LAND	<u>571,002</u>	<u>(99,266)</u>	<u>471,736</u>	<u>0</u>	<u>471,736</u>
REMOVE AFUDC - A/C# 331	(47,307)				
ITEMS BOOKED TWICE - A/C#331	(41,851)				
		(89,158)			
ITEMS BOOKED TWICE - A/C#334	(10,026)				
EXPENSES CAPITALIZED - A/C#334	2,143				
PROFORMA ADJUSTMENT - A/C#334	(2,225)				
		(10,108)			
		(99,266)			
		=====			
<u>WASTEWATER PLANT IN SERVICE</u>	<u>PER REVSD BAL SHEET 12-31-97</u>	<u>AUDIT ADJUST</u>	<u>SUB TOTAL</u>	<u>REORG ACCTS PER ORDER</u>	<u>PER ORDER NO. 98-1623 12-31-97</u>
351 ORGANIZATION COST - SEWER			0	57	57
354 STRUCTURES & IMPROVEMENTS	350,675	(84,272)	266,403	191,124	457,527
360 COLLECTION SEWERS - FORCE			0	10,195	10,195
361 COLLECTION SEWERS - GRAVITY	350,306	(47,600)	302,706	(254,161)	48,545
363 SERVICES			0	34,380	34,380
364 FLOW MEASURING DEVICES			0	0	0
380 TREATMENT & DISPOSAL EQUIPMENT			0	17,698	17,698
381 PLANT SEWERS			0	190	190
382 OUTFALL SEWER LINES			0	0	0
392 STORES EQUIPMENT			0	517	517
398 MISCELLANEOUS EQUIPMENT			0	0	0
	<u>700,981</u>	<u>(131,872)</u>	<u>569,109</u>	<u>0</u>	<u>569,109</u>
353 LAND & LAND RIGHTS	4,434		4,434		4,434
TOTAL SEWER PLANT AND LAND	<u>705,415</u>	<u>(131,872)</u>	<u>573,543</u>	<u>0</u>	<u>573,543</u>
REMOVE AFUDC - A/C# 354	(51,113)				
DISALLOWED PROJECT - A/C# 354	(35,012)				
OTHER DIFFERENCE	1,853				
		(84,272)			
ITEMS BOOKED TWICE - A/C#361		(47,600)			
		(131,872)			
		=====			



**Disclosure No. 1 (Continued)**  
**Schedule B**

<u>DEPRECIATION - WATER</u>	PER REVSD BAL SHEET 12-31-97	AUDIT ADJUST (A)	SUB TOTAL	REORG ACCT'S PER ORDER	PER ORDER NO. 98-1623 12-31-97
301 ORGANIZATION COST		95	95	0	95
304 STRUCTURE AND IMPROVEMENTS	1,798	18,887	20,685	1,928	22,613
307 WELLS AND SPRINGS	7,597	35,309	42,906	(10,044)	32,862
309 SUPPLY MAINS	0	0	0	0	0
310 POWER GENERATING EQUIPMENT	9,787	(8,641)	1,146	176	1,322
311 PUMPING EQUIPMENT	0	0	0	0	0
320 WATER TREATMENT PLANT	9,042	11,978	21,020	3,235	24,255
330 DIST. RESERVOIR & STANDPIPES	2,168	(2,168)	0	0	0
331 TRANSMISSION & DIST. MAINS	17,196	6,267	23,463	4,705	28,168
333 SERVICES	0	0	0	0	0
334 METERS	3,204	7,103	10,307	0	10,307
344 LAB EQUIPMENT	0	0	0	0	0
ACCUMULATED DEPRECIATION	50,792	68,830	119,622	0	119,622
ADJUSTMENT FOR YEARS 1998-2000 (B)		(1,933)			
		66,897			
<hr/>					
<u>DEPRECIATION - WASTEWATER</u>	PER REVSD BAL SHEET 12-31-97	AUDIT ADJUST (A)	SUB TOTAL	REORG ACCT'S PER ORDER	PER ORDER NO. 98-1623 12-31-97
351 ORGANIZATION COST - SEWER				14	14
354 STRUCTURES & IMPROVEMENTS	8,125	77,770	85,895	36,918	122,813
360 COLLECTION SEWERS - FORCE				2,737	2,737
361 COLLECTION SEWERS - GRAVITY	5,332	51,030	56,362	(55,596)	766
363 SERVICES				7,122	7,122
364 FLOW MEASURING DEVICES				0	0
380 TREATMENT & DISPOSAL EQUIPMENT				8,554	8,554
381 PLANT SEWERS				43	43
382 OUTFALL SEWER LINES				0	0
392 STORES EQUIPMENT				208	208
398 MISCELLANEOUS EQUIPMENT				0	0
	13,457	128,800	142,257	0	142,257
ADJUSTMENT FOR YEARS 1998-2000 (B)		3,917			
		132,717			

(A) Audit adjustments based on company not using prescribed rates per Commission Rule 25-30.140 in prior audit and adjustments to plant as previously noted.

(B) Additionally, since the adjustments for Plant in Service from the Order were not properly made, the depreciation for the years 1998-2000 computed by the company were not correct.

**Disclosure No. 1 (Continued)**  
**Schedule C**

<u>CIAC</u>	<u>PER REVSD BAL SHEET 12-31-97</u>	<u>AUDIT ADJUST (A)</u>	<u>SUB TOTAL</u>	<u>PER ORDER NO. 98-1623 12-31-97</u>
WATER	306,796	(109,176)	197,620	197,620
WASTEWATER	290,446	(42,601)	247,845	247,845
	<u>597,242</u>	<u>(151,777)</u>	<u>445,465</u>	<u>445,465</u>
ADJUST FOR 1998 (B)			=====	=====
WATER		(3,372)		
WASTEWATER		(4,107)		
		<u>(159,256)</u>		
		=====		
 <u>AMORTIZATION CIAC</u>				
WATER	24,472	(6,461)	18,011	18,011
WASTEWATER	11,808	10,237	22,045	22,045
	<u>36,280</u>	<u>3,776</u>	<u>40,056</u>	<u>40,056</u>
			=====	=====
INCORRECT COMPANY COMPUTATION (B)				
WATER		(4,189)		
WASTEWATER		332		
		<u>(81) DIFFERENCE</u>		
		=====		

(A) Audit adjustment is due to company adjusting to preliminary staff recommendations and not final order.

(B) Company also recorded 3 new customers too many for 1998 and computed amortization incorrectly for years 1998 and 1999.

## **Disclosure No. 2**

### **Subject: Sales Agreement / Acquisition Adjustment**

**Statement of Fact:** Highlands Ridge Associates, Inc. owned the Villages of Highlands Ridge development, which included among its assets, land, buildings, golf course, clubhouses and a water and wastewater utility. Substantially all of the assets of Highlands Ridge Associates, Inc, with the exception of the utility assets , were sold to Sebring Land Limited Partnership and others on July 28, 2000. The sale of the utility is awaiting Florida Public Service Commission approval. The sales price of the utility, per the Purchase and Sales Agreement, is \$750,000. This agreement also contains a provision in the event the PSC requires the utility to refund excess charges that may have been collected from customers.

After the sales agreement was prepared, utility improvements have been made to the development in the "Phase VI, Carter Creek" expansion. These improvements consisted of water and wastewater lines and a reclaimed water line. The improvements were paid for by Sebring Land Ltd. and are not recorded on the books of Highlands Ridge Associates, Inc. The improvements cost is \$104,433.

Highlands Ridge Utilities LLC will be the new utility company once the sale is finalized and it plans to record these assets on its books. In a discussion with an employee of Sebring Land Ltd. it is not certain at this time if an adjustment will be made to the purchase price for the above improvements.

**Recommendation:** The audit did not reveal evidence of any extraordinary circumstances permitting an acquisition adjustment to be included in rate base. The net audited rate base, not including the above improvements, of the utility systems is \$142,371 (\$69,636 for water and \$72,735 for wastewater). When this amount is compared to the sale price of \$750,000, a difference of \$607,629 remains. Whatever the final sales price is determined to be, we do not believe an acquisition adjustment should be allowed in rate base.

HIGHLANDS RIDGE ASSOCIATES, INC.  
DOCKET 001551-WS  
RATE BASE - WATER  
TEST PERIOD ENDED DECEMBER 31, 2000

DESCRIPTION	(a) BALANCE PER BOOKS @12/31/00	(b) AUDIT ADJUSTMENTS	(c) AUDITED BALANCE @12/31/00	(d) AVERAGE RATE BASE @12/31/00
UTILITY PLANT IN SERVICE	577,723	(99,266)	478,457	476,822
LAND	443	0	443	443
PLANT HELD FOR FUTURE USE	0	0	0	0
CIAC	(395,000)	112,548	(282,452)	(275,222)
CWIP	0	0	0	0
ACCUMULATED DEPRECIATION	(105,263)	(66,897)	(172,160)	(163,315)
AMORTIZATION-CIAC	55,998	(10,650)	45,348	40,243
WORKING CAPITAL	0	0	0	0
<b>TOTAL</b>	<b>133,901</b>	<b>(64,265)</b>	<b>69,636</b>	<b>78,971</b>

NOTE: WORKING CAPITAL ALLOWANCE NOT REQUIRED PER ASR.

HIGHLANDS RIDGE ASSOCIATES, INC.  
DOCKET 001551-WS  
RATE BASE - WASTEWATER  
TEST PERIOD ENDED DECEMBER 31, 2000

DESCRIPTION	(a) BALANCE PER BOOKS @12/31/00	(b) AUDIT ADJUSTMENTS	(c) AUDITED BALANCE @12/31/00	(d) AVERAGE PLANT @12/31/00
UTILITY PLANT IN SERVICE	703,081	(131,872)	571,209	570,159
LAND	4,434	0	4,434	4,434
PLANT HELD FOR FUTURE USE	0	0	0	0
CIAC	(400,945)	46,708	(354,237)	(345,170)
CWIP	0	0	0	0
ACCUMULATED DEPRECIATION	(71,785)	(132,717)	(204,502)	(194,115)
AMORTIZATION-CIAC	45,262	10,569	55,831	49,543
WORKING CAPITAL	0	0	0	0
<b>TOTAL</b>	<b>280,047</b>	<b>(207,312)</b>	<b>72,735</b>	<b>84,851</b>

NOTE: WORKING CAPITAL ALLOWANCE NOT REQUIRED PER ASR.