

State of Florida



# Public Service Commission

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

---

**DATE:** February 15, 2001  
**TO:** Division of Regulatory Oversight (Clapp)  
**FROM:** Denise N. Vandiver; Division of Regulatory Oversight *DNV*  
**RE:** Docket No., 001513-WS; Timberwood Utilities  
(Arbor Oaks I, LLC and Arbor Oaks II, LLC)  
Audit Report - Establish Rate Base  
Audit Control No. 00-293-3-1

---

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

Timberwood Utilities  
(Arbor Oaks I, LLC and Arbor Oaks II, LLC)  
Kurt Wallach  
1717 20th Street, Suite 105  
Vero Beach, FL 32960-0619

DOCUMENT NUMBER-DATE  
02156 FEB 15 2001  
FPSC-RECORDS/REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY OVERSIGHT  
BUREAU OF AUDITING SERVICES*

*Orlando District Office*

ARBOR OAKS I, LLC AND ARBOR OAKS II, LLC  
D/B/A TIMBERWOOD UTILITIES

RATE BASE DETERMINATION AUDIT

AS OF MARCH 23, 2000

DOCKET NO. 001513-WS

AUDIT CONTROL NO. 00-293-3-1

A handwritten signature in cursive script, reading "Robert F. Dodrill, Sr.", written over a horizontal line.

*Robert F. Dodrill, Sr., Audit Manager*

A handwritten signature in cursive script, reading "Charleston J. Winston", written over a horizontal line.

*Charleston J. Winston, Audit Supervisor*

TABLE OF CONTENTS

<b>I.</b>	<b>AUDITOR'S REPORT</b>	<b>PAGE</b>
	PURPOSE .....	1
	DISCLAIM PUBLIC USE .....	1
	SUMMARY OF SIGNIFICANT FINDINGS .....	2
	SUMMARY OF SIGNIFICANT PROCEDURES .....	2
<b>II.</b>	<b>EXCEPTIONS</b>	
1.	PLANT-IN-SERVICE AND ACCUMULATED DEPRECIATION .....	3
2.	CIAC AND AMORTIZATION .....	5
<b>III.</b>	<b>EXHIBITS</b>	
1.	WATER RATE BASE .....	6
2.	WASTEWATER RATE BASE .....	7

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

**JANUARY 12, 2001**

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

We have applied the procedures described later in this report to audit the water and wastewater rate bases as of March 23, 2000, for Arbor Oaks I, LLC and Arbor Oaks II, LLC, d/b/a Timberwood Utilities. The attached schedules were prepared by the auditor as part of our work in Docket No. 001513-WS.

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 did not account for its water meter replacement program for the years 1998, 1999, and 2000. Correction to this results in a net plant increase of \$557. Water accumulated depreciation should be reduced by \$1,683 for retirements of \$1,618 and rate and miscellaneous differences of \$65.

The utility did not account for its wastewater plant additions and retirements. Correction for this yields a net increase in plant of \$737. Wastewater accumulated depreciation should be reduced by \$3,539 to include retirements of \$2,185, rate differences of \$1,372, and miscellaneous differences of \$18.

Accumulated amortization of CIAC should be increased by \$418 and \$417 for water and wastewater, respectively, due to amortization rate differences.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are significant 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.

**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:** Examined account balances for utility-plant-in-service, contributions-in-aid-of-construction (CIAC), accumulated depreciation, and accumulated amortization of CIAC from February 1, 1998 to March 23, 2000. Reconciled rate base balances authorized in Commission Order No. PSC-98-1388-FOF-WS, issued October 15, 1998, to the December 31, 1998 general ledger balance. Scanned operator invoices for water meter purchases. Compiled water meter installations from the utility water meter replacement program. Verified the wastewater plant additions to utility documentation. Tested additions to accumulated depreciation and scanned utility records for CIAC additions. Recalculated CIAC amortization from January 31, 1998 to March 23, 2000, using annual composite depreciation rates.

**OTHER:** Toured the wastewater plant and service area to obtain an understanding of the recent plant additions.

**Exception No. 1**

**Subject: Plant-in-Service and Accumulated Depreciation**

**Statement of Fact:** Commission Order No. PSC-98-1388-FOF-WS, issued October 15, 1998, established the January 31, 1998 water and wastewater depreciable utility-plant-in-service (UPIS) balances to be \$64,063 and \$195,232, respectively.

**Recommendation:** The utility's 1999 Annual Report, restated to the March 23, 2000 transfer date, indicated that the ending depreciable water and wastewater plant balances were \$64,063 and \$195,232, respectively.

The utility failed to account for its water meter replacement program from February 1, 1998 through March 23, 2000. A review of plant operator invoices indicated that meters were purchased, and plumbing invoices indicated the dates and costs of meter replacements. No retirements of existing meters were noted on the company records. Operator invoices also indicated that the utility replaced a wastewater blower, chlorine pump, and lift station controller. None of these wastewater plant replacements appeared on the company plant records either as additions or retirements.

The depreciable UPIS balances per audit were determined using the beginning plant subaccount balances established by the above Commission Order and the plant additions and retirements identified during audit fieldwork.

**Depreciable Plant-in-Service**

	Balance per <u>Utility</u>	Balance per <u>Audit</u>	Audit <u>Exception</u>
Water	\$64,063	\$64,620	\$557
Wastewater	\$195,232	\$195,969	\$737

The Commission should increase the March 23, 2000, Timberwood Utilities water and wastewater depreciable UPIS balances by \$557 and \$737, respectively.

**Exception 1, continued**

**Accumulated Depreciation**

The utility's 1999 Annual Report, restated to the March 23, 2000 transfer date, also indicated that the ending water and wastewater accumulated depreciation balances were \$23,553 and \$87,909, respectively.

The audit staff applied the Rule 25-30.140, Florida Administrative Code (F.A.C.), depreciation rates to the audited plant subaccount balances from February 1, 1998 to March 23, 2000, to obtain the per audit water and wastewater accumulated depreciation balances which follow.

The following accumulated depreciation adjustments are made because the utility failed to book major plant replacements and retirements. Also, it used incorrect depreciation rates for some plant subaccounts.

	Balance per <u>Utility</u>	Balance per <u>Audit</u>	Audit <u>Exception</u>
Water Accumulated Depreciation	(\$23,553)	(\$21,870)	\$1,683
Wastewater Accumulated Depreciation	(\$87,909)	(\$84,370)	\$3,539

The Commission should decrease the water and wastewater accumulated depreciation balances by \$1,683 and \$3,539, respectively.

**Exception No. 2**

**Subject: CIAC and Amortization of CIAC**

**Statement of Fact:** Commission Order No. PSC-98-1388-FOF-WS, issued October 15, 1998, established the January 31, 1998 water and wastewater CIAC balances to be \$53,583 and \$95,165, respectively. The associated accumulated amortization of the water and wastewater CIAC balances as of January 31, 1998, were \$15,162 and \$31,940, respectively.

**Recommendation:** The utility's 1999 Annual Report balances, restated to March 23, 2000, indicated that the utility water CIAC and accumulated amortization balances were (\$53,583) and \$18,185, respectively. The utility wastewater CIAC and accumulated amortization balances were (\$95,165) and \$38,376, respectively.

In 1998 and 1999, the utility carried forward net CIAC balances, and it used incorrect amortization rates for amortization instead of annual composite rates. The utility corrected the CIAC balances in 1999. However, the accumulated amortization balances remained uncorrected.

Using the prior Commission Order CIAC amounts above, the per audit CIAC amortization balances were recalculated based on the annual composite depreciation rates from January 31, 1998 to March 23, 2000.

**Water**

	Balance per <u>Utility</u>	Balance per <u>Audit</u>	Audit <u>Exception</u>
CIAC	(\$53,583)	(\$53,583)	\$0
Amortization of CIAC	\$18,185	\$18,603	\$418

**Wastewater**

	Balance per <u>Utility</u>	Balance per <u>Audit</u>	Audit <u>Exception</u>
CIAC	(\$95,165)	(\$95,165)	\$0
Amortization of CIAC	\$38,376	\$38,793	\$417

The Commission should increase the March 23, 2000 water and wastewater accumulated amortization of CIAC balances by \$418 and \$417, respectively.



**EXHIBIT I**

**TIMBERWOOD UTILITIES (ARBOR OAKS I & II, LTD.)  
DOCKET NO. 001513-WS  
WATER RATE BASE  
AS OF MARCH 23, 2000**

(a) DESCRIPTION	(b) PER UTILITY (1)	(c) AUDIT EXCEPTION	(d) REFER TO	(e) PER AUDIT
UTILITY PLANT-IN-SERVICE	\$64,063	\$557	AE 1	\$64,620
LAND	0	0		0
CIAC	(53,583)	0		(53,583)
AMORTIZATION OF CIAC	18,185	418	AE 2	18,603
ACCUMULATED DEPRECIATION	(23,553)	1,683	AE 1	(21,870)
WORKING CAPITAL (2)	0	0		0
TOTAL	<u>\$5,112</u>	<u>\$2,658</u>		<u>\$7,770</u>

**REQUIRED FOOTNOTES:**

(1) Utility amounts from 1999 Annual Report restated to March 23, 2000.

(2) Working Capital was not to be calculated per Audit Service Request.

**EXHIBIT II**

**TIMBERWOOD UTILITIES (ARBOR OAKS I & II, LTD.)  
DOCKET NO. 001513-WS  
WASTEWATER RATE BASE  
AS OF MARCH 23, 2000**

(a) DESCRIPTION	(b) PER UTILITY (1)	(c) AUDIT EXCEPTION	(d) REFER TO	(e) PER AUDIT
UTILITY PLANT-IN-SERVICE	\$195,232	\$737	AE 1	\$195,969
LAND	10,152	0		10,152
CIAC	(95,165)	0		(95,165)
AMORTIZATION OF CIAC	38,376	417	AE 2	38,793
ACCUMULATED DEPRECIATION	(87,909)	3,539	AE 1	(84,370)
WORKING CAPITAL (2)	0	0		0
TOTAL	\$60,686	\$4,693		\$65,379

**REQUIRED FOOTNOTES:**

(1) Utility amounts from 1999 Annual Report restated to March 23, 2000.

(2) Working Capital was not to be calculated per the Audit Service Request.