

ORIGINAL

State of Florida



# Public Service Commission

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

**DATE:** March 15, 2001  
**TO:** Division of Regulatory Oversight (Pat Brady)  
**FROM:** Division of Regulatory Oversight (Denise N. Vandiver) *DW*  
**RE:** Docket No. 001820-SU; Cross Creek of Fort Myers Community Association, Inc., Audit to Establish Rate Base as of December 31, 2000; Audit Control No. 01-004-3-1

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, it should send the response to the Division of Records and Reporting. There are no confidential work papers associated with this audit.

### Attachment

cc: Division of Regulatory Oversight (Hoppe, Harvey, File Folder,)  
 Division of Records and Reporting  
 Division of Legal Services

Mr. Joseph H. Hassler  
 Cross Creek of Fort Myers Community Association, Inc.  
 13050 Cross Creek Blvd.  
 Fort Myers, FL 33912

Mr. Carl J. Wenz  
 Utilities, Inc. Of Eagle Ridge  
 200 Weathersfield Avenue  
 Altamonte Springs, FL 32714-4099

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 Martin Friedman  
 2548 Blairstone Pines Dr.  
 Tallahassee, FL 32301

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REGULATORY REPORTING



**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF REGULATORY OVERSIGHT  
BUREAU OF AUDITING SERVICES*

*Miami District Office*

CROSS CREEK OF FORT MYERS  
COMMUNITY ASSOCIATION

ESTABLISH RATE BASE  
AT TRANSFER

YEAR ENDED DECEMBER 31, 2000

DOCKET NUMBER 001820-SU

AUDIT CONTROL NO. 01-004-3-1

A handwritten signature in cursive script, appearing to read "Kathy L. Welch".

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*Kathy L. Welch, Audit Manager*

A handwritten signature in cursive script, appearing to read "Ruth Young".

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*Ruth Young, Professional Accountant  
Specialist*

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

**March 5, 2001**

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

We have applied the procedures described later in this report to the attached rate base schedule for the period ended December 31, 2000 for Cross Creek of Fort Myers Community Association, Inc. This schedule was prepared by staff as part of the transfer of rate base in Docket 001820-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 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 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.

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

**Reviewed-** The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

**Examined-** The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied and account balances were tested to the extent further described.

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

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

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Examined all invoices, after the homeowners association took over, that related to plant additions and classified them by account. Obtained documentation from the engineer on the original project for costs of the original plant and classified them by account. Reviewed outside estimates for plant costs and toured the facility. Reviewed documents filed at the clerk of the courts office to determine if any documents existed relating to cost.

The scope is limited in that no costs could be found relating to the cost of the mains or lift stations. Utilities, Inc. is currently obtaining an original cost study on these items.

Depreciated plant using rule 25-30.140.

Reviewed depreciation schedules and tax returns and sales documents to determine if any contributions exist.

Read board of directors meeting minutes and the sales agreement.

## **AUDIT DISCLOSURE NO. 1**

### **SUBJECT: PLANT IN SERVICE**

**STATEMENT OF FACT:** The original plant was built by US Homes in 1985. They added an expansion in 1987. Ownership was turned over to the Cross Creek of Fort Myers Homeowners Association around 1988.

Since that time, the homeowners association has collected amounts from the residents to equal all payments made for operation, repairs and additions (in full). The Association also added two major expansions, one in 1992 for a new surge tank and one in 1995 for tanks and a spray irrigation system. Although the Association did not capitalize any of these amounts, because of the rules for homeowners associations, amounts were determined from reviewing invoices and reserve fund activity. Total amounts paid by the association for capital additions were \$642,849.24, \$3,384.63 of which was for cost of removal.

A printout of capital additions was finally received from US Homes. The majority of the costs were traced to final contract payments provided by Source Engineering. There were some minor items such as soil testing and fencing which could not be substantiated by invoices. The printout did not contain the amount paid for lines. Utilities Inc. has decided to do an original cost study of the amounts contained in the inventory for the lines and lift stations. The costs from the contract payments was \$708,239.67.

The total plant substantiated is \$1,347,704.28.

Depreciation was computed as is shown on the schedule following this disclosure.

**CROSS CREEK OF FORT MYERS COMMUNITY ASSOCIATION  
ACCUMULATED DEPRECIATION  
TEST PERIOD ENDED DECEMBER 31, 2000**

YEAR	ACCOUNT	TOTAL	YEARS	RATE	ACCUMULATED DEPRECIATION AS OF 12/31/00
1985	380	318,441.37	15.5	0.0667	318,441.37
1985	381	24,679.30	15.5	0.0131	5,011.13
1987	380	345,395.00	13.5	0.0667	311,010.93
1987	381	19,724.00	13.5	0.0131	3,488.19
1992	380	131,532.91	8.5	0.0667	74,572.58
1993	371	15,064.00	7.5	0.0667	7,535.77
1993	380	4,300.66	7.5	0.0667	2,151.41
1993	382	3,800.00	7.5	0.0333	949.05
1994	380	6,523.45	6.5	0.0667	2,828.24
1996	COST OF REMOVAL				(3,384.63)
1996	354	9,070.70	4.5	0.037	1,510.27
1996	354	37,556.00	4.5	0.037	6,253.07
1996	371	23,683.00	4.5	0.0667	7,108.45
1995	380	264,704.87	4.5	0.0667	79,451.17
1996	382	12,150.00	4.5	0.0333	1,820.68
1995	354	2,933.86	5.5	0.037	597.04
1995	371	9,958.09	5.5	0.0667	3,653.13
1995	380	4,638.00	5.5	0.0667	1,701.45
1996	365	4,778.00	4.5	0.0286	614.93
1996	371	2,408.08	4.5	0.0667	722.79
1996	380	1,486.27	4.5	0.0667	446.10
1996	382	425.00	4.5	0.0333	63.69
1997	370	8,386.00	3.5	0.04	1,174.04
1997	371	7,036.30	3.5	0.0667	1,642.62
1998	371	975.00	2.5	0.0667	162.58
1998	380	19,909.42	2.5	0.0667	3,319.90
1999	370	8,758.00	1.5	0.04	525.48
1999	380	22,006.00	1.5	0.0667	2,201.70
2000	365	28,880.00	0.5	0.0286	412.98
2000	380	8,501.00	0.5	0.0667	283.51
		<u>1,347,704.28</u>			<u>836,269.61</u>

Rates per rule 25-30.140

## AUDIT DISCLOSURE NO. 2

### SUBJECT: CONTRIBUTIONS IN AID OF CONSTRUCTION

**STATEMENT OF FACT:** Since US Homes turned over ownership to the Cross Creek of Fort Myers Community Association at no charge, it can be assumed that the cost of the plant and lines were recovered by US Homes as part of the purchase price of the homes. Therefore, the homeowners paid for these items as part of the purchase price of the homes. In addition, the homeowners have also paid in full for all the additions made to the plant. Normally, this would mean that the plant is contributed and CIAC should be calculated. However, in this instance, the homeowners are selling the utility to Utilities, Inc., through the Association for \$750,000. The money received from the sale from Utilities, Inc. will be used to fund all the reserves of the Association, and thus the homeowners will not have to pay additional money to fund renovations to any other part of the community property. Since the homeowners own 100% of the plant and they are, in effect, the sellers, it does not appear to be appropriate to record CIAC. Since the Association was not regulated, it would not have been required to meet minimum contribution levels.



**EXHIBITS**

**STAFF PREPARED RATE BASE**

**CROSS CREEK OF FORT MYERS COMMUNITY ASSOCIATION  
RATE BASE  
AS OF 12/31/00**

	<b>BALANCE AS OF 12/31/00</b>
PLANT IN SERVICE	1,347,704.28
ACCUMULATED DEPRECIATION	(836,269.61)
CIAC	0.00
ACCUMULATED AMORTIZATION CIAC	0.00
	<u>511,434.67</u>

Does not include lines and lift stations. Utilities, Inc. is performing an original cost study of these items.