

State of Florida



Public Service Commission

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

DATE: September 11, 2001
TO: Division of Economic Regulation (Walker)
FROM: Division of Regulatory Oversight (Vandiver) *W*
RE: Docket No. 010823-WS; CWS Communities LP d/b/a/ Palm Valley; Staff Assisted Rate Case Audit; Audit Control No. 01-186-3-1

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 the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

Attachment
DNV/jcp

cc: Division of Regulatory Oversight (Hoppe, Harvey, District Offices, File Folder)
Division of the Commission Clerk
Division of Legal Services

Gena F. Larison, Community Director
CWS Communities LP d/b/a/ Crystal Lake Club
533 E. Crystal Lake Drive
Avon Park, FL 33825-9739

Ms. Sandra Seyffart
CWS Communities LP d/b/a Palm Valley
3700 Palm Valley Circle
Oviedo, FL 32765-4904

DOCUMENT NUMBER-DATE

11425 SEP 13 2001

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES*

Orlando District Office

**CWS COMMUNITIES LP
D/B/A PALM VALLEY**

STAFF-ASSISTED RATE CASE

HISTORICAL PERIOD ENDED JULY 31, 2001

**DOCKET NO. 010823-WS
AUDIT CONTROL NO. 01-186-3-1**

Jeffery A. Small, Audit Manager

Duane Chamberlin, Audit Staff

Charleston J. Winston, District Audit Supervisor

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE	1
	DISCLAIM PUBLIC USE	1
	SUMMARY OF SIGNIFICANT FINDINGS	2
	SUMMARY OF SIGNIFICANT PROCEDURES	3
II.	EXCEPTIONS	
	1. BOOKS AND RECORDS	4
	2. WATER UTILITY PLANT-IN-SERVICE	5
	3. WASTEWATER LAND	6
	4. ACCUMULATED DEPRECIATION	7
	5. CONTRIBUTIONS-IN-AID OF CONSTRUCTION (CIAC) AND ACCUMULATED AMORTIZATION OF CIAC	8
	6. REVENUES	9
	7. OPERATION & MAINTENANCE EXPENSE	11
	8. TAXES OTHER THAN INCOME	13
	9. CAPITAL STRUCTURE	14
	10. CUSTOMER DEPOSITS	15
III.	DISCLOSURES	
	1. REUSE WATER SERVICE	16
	2. WASTEWATER PROJECTED ANNUAL COST INCREASE	17
IV.	EXHIBITS	
	1. WATER RATE BASE	18
	2. WASTEWATER RATE BASE	19
	3. WATER NET OPERATING INCOME	20
	4. WASTEWATER NET OPERATING INCOME	21
	5. CAPITAL STRUCTURE	22

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

August 30, 2001

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedules of Rate Base and Net Operating Income for the historical 12-month period ended July 31, 2001 and Capital Structure as of December 31, 2000, for CWS Communities LP d/b/a/ Palm Valley. These schedules were assembled by the audit staff as part of our work in the utility's application for a Staff-Assisted Rate Case in Docket No. 010823-WS.

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.

SUMMARY OF SIGNIFICANT FINDINGS

The utility's water and wastewater utility-plant-in-service (UPIS) are understated by \$547,780 and \$795,164, respectively, as of July 31, 2001.

The utility's wastewater land balance is overstated by \$19,889 as of July 31, 2001.

The utility's water and wastewater accumulated depreciation (AD) are understated by \$825 and \$227,867, respectively, as of July 31, 2001.

The utility's water and wastewater CIAC are understated by \$3,230 and \$34,867, respectively, as of July 31, 2001.

The utility's water accumulated amortization (AA) of CIAC is overstated by \$4,241, and its wastewater AA of CIAC is understated by \$74,461 as of July 31, 2001.

The utility's water and wastewater revenues are \$35,817 and \$37,885, respectively, for the 12-month period ended July 31, 2001.

The utility's water and wastewater operation and maintenance expenses (OM) are \$32,992 and \$113,279, respectively, for the 12-month period ended July 31, 2001.

The utility's water and wastewater taxes other than income expenses are \$7,540 and \$17,490, respectively, for the 12-month period ended July 31, 2001.

The utility parent's, CWS Communities Trust, weighted average cost of capital is 9.04 percent as of December 31, 2000.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, the utility's books and records since rate base was last established in Docket No. 991984-WS, which we believe is 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.

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

RATE BASE: Verified account balances for utility-plant-in-service (UPIS), contributions-in-aid-of-construction (CIAC), accumulated depreciation (AD), and accumulated amortization of CIAC from August 30, 1999. Reconciled rate base balances authorized in Commission Order No. PSC-00-1675-PAA-WS, issued September 19, 2000, to the utility's Annual Report. Scanned and verified additions to UPIS and CIAC as of July 31, 2001. Calculated working capital. Tested additions to accumulated depreciation and accumulated amortization of CIAC for proper rates and calculations. Assembled the rate base schedules as of July 31, 2001.

NET OPERATING INCOME: Verified utility revenue and operation and maintenance account balances for the 12-month period ended July 31, 2001. Scanned and verified supporting documentation for operation and maintenance expenses for the 12-month period ended July 31, 2001. Tested the calculation of depreciation expense and amortization of CIAC expense for the 12-month period ended July 31, 2001. Scanned and verified supporting documentation for taxes other than income. Verified the utility's 2000 Regulatory Assessment Fee returns filed with the Commission. Assembled the net operating income schedules for the 12-month period ended July 31, 2001.

CAPITAL STRUCTURE: Assembled components of the utility parent's, CWS Communities Trust, capital structure as of December 31, 2000.

OTHER: Read the Board of Directors' Minutes through December 31, 2000. Scanned the utility's 1999 and 2000 federal income tax returns for items related to regulatory issues.

Exception No. 1

Subject: Books and Records

Statement of Fact: Rule 25-30.115, Florida Administrative Code, (F.A.C.), requires utilities to maintain their books and records by the National Association of Regulatory Utility Commissioners, (NARUC) Uniform System of Accounts (USOA).

Order No. PSC-00-1675-PAA-WS, issued September 19, 2000, placed the utility on notice it shall maintain its books and records in conformance with the 1996 NARUC USOA and submit a statement to the Commission with its 2000 Annual Report from its accountant by March 31, 2001, affirming that its books and records are in conformance with the 1996 NARUC USOA.

Recommendation: The utility's books and records of the utility are not in substantial compliance with the Commission rule and Commission Order cited above.

Palm Valley did not have a complete general ledger (GL) for its continuing operations. The audit staff was provided with the monthly Profit and Loss (PL) statements for 2000 and 2001 for its utility operations that are maintained on a cash basis system of accounting. The PL statements included a numbering system that vaguely corresponded to the NARUC USOA.

The Commission should require the utility to maintain its books and records per the rule cited above, and it should also require the utility to show cause why it should not be fined for failing to comply with the Commission Order cited above.

Additionally, the Commission should initiate a compliance investigation of the utility's books and records after this rate proceeding to ensure that the utility records all ordered adjustments that result from this rate proceeding.

Exception No. 2

Subject: Water Utility-Plant in-Service (UPIS)

Statement of Fact: The utility's 1999 and 2000 Annual Reports indicate balances of \$285,865 and \$1,134,245 for water and wastewater UPIS, respectively, as of December 31, 2000, with no additions to UPIS in 1999 or 2000.

Commission Order No. PSC-00-1675-PAA-WS, issued September 19, 2000, required the utility to increase its water and wastewater UPIS balances by 98,240 and \$105,256, respectively, as of August 30, 1999.

The utility completed three construction projects as of July 31, 2001, that expanded its water and wastewater UPIS. Additionally, the utility provided supporting documentation for water and wastewater UPIS additions that have not been recorded in its books as of July 31, 2001.

<u>Description</u>	<u>Amount</u>
Water treatment plant expansion	\$392,900
Wastewater treatment plant expansion	\$313,125
Reuse system and percolation pond expansion	\$327,794
Water invoices for 2000 and 2001	\$56,639
Wastewater invoices for 2000 and 2001	\$54,273

Recommendation: The utility's water and wastewater UPIS balances are understated by \$547,779 (\$98,240 + \$449,539) and \$795,164 (\$105,256 + \$695,192 - \$5,284), respectively, as of July 31, 2001, because of the following audit staff findings.

- 1) Water and wastewater UPIS should be increased by \$98,240 and \$105,256, respectively, to reconcile the utility's UPIS balances as of August 30, 1999, per the Order cited above.
- 2) Water UPIS should be increased by \$449,539 (\$392,900 + \$56,639) to record additions for 2000 and 2001.
- 3) Wastewater UPIS should be increased by \$695,192 (\$313,125 + \$327,794 + \$54,273) to record additions for 2000 and 2001.
- 4) Wastewater UPIS should be reduced by \$5,284 to record UPIS retirements associated with UPIS additions in Item 3 above.

The Commission should require the utility to increase its water and wastewater UPIS balances by \$547,779 and \$795,164, respectively, to properly record the Commission's prior Order and to record UPIS additions per audit staff's findings discussed above.

Exception No. 3

Subject: Wastewater Land

Statement of Fact: Commission Order No. PSC-00-1675-PAA-WS required the utility to reduce its wastewater land balance by \$19,889 to \$96,409 as of August 30, 1999.

The utility's 2000 Annual Report indicates a wastewater land balance of \$116,298.

Recommendation: The utility has not recorded the Commission Order adjustment discussed above.

The Commission should require the utility to reduce its wastewater land balance by \$19,889 per the Order cited above.

Exception No. 4

Subject: Accumulated Depreciation (AD)

Statement of Fact: The utility's 2000 Annual Report restated forward to July 31, 2001, indicates balances of \$228,501 and \$398,125 for water and wastewater AD, respectively, as of July 31, 2001.

Commission Order No. PSC-00-1675-PAA-WS, required the utility to reduce its water AD by \$7,968 and increase its wastewater AD by \$170,721 as of August 30, 1999. Additionally, the Order incorporated Rule 25-30.140, F.A.C., which requires the use of Commission-established service lives for water and wastewater UPIS.

Recommendation: The utility's water and wastewater AD balances are understated by \$825 (\$9,564 - \$7,968 - \$771) and \$227,867 (\$170,721 + \$15,266 + \$47,164 - \$5,284), respectively, as of July 31, 2001, because of the following audit staff findings.

- 1) Water AD should be reduced by \$7,968 and wastewater AD should be increased by \$170,721, respectively, to reconcile the utility's AD balances as of August 30, 1999, per the Order cited above.
- 2) Water AD should be increased by \$9,564 to record AD on corresponding additions discussed in Exception No. 2 of this report.
- 3) Water AD should be reduced by \$771 to properly reflect the use of Commission rule rates required in the Order cited above.
- 4) Wastewater AD should be increased by \$15,266 to record AD on corresponding additions discussed in Exception No. 2 of this report.
- 5) Wastewater AD should be increased by \$47,164 to properly reflect the use of Commission rule rates required in the Order cited above.
- 6) Wastewater AD should be reduced by \$5,284 to properly record the retirement of UPIS discussed in Exception No. 2 of this report.

The Commission should require the utility to increase its water and wastewater AD balances by \$825 and \$227,867, respectively, to properly record the Commission's prior Order and to record AD on UPIS additions per the audit staff's findings discussed above.

Additionally, the audit staff has calculated water and wastewater depreciation expenses of \$21,683 and \$73,323, respectively, for the 12-month period ended July 31, 2001.

Exception No. 5

Subject: Contributions-in-Aid-of-Construction(CIAC) and Accumulated Amortization (AA) of CIAC

Statement of Fact: The utility's 2000 Annual Report indicates balances of \$89,509 and \$390,046 for water and wastewater CIAC, respectively, as of December 31, 2000, with no additions to UPIS in 1999 or 2000.

The utility's 2000 Annual Report restated forward to July 31, 2001, indicates balances of \$51,078 and \$118,202 for water and wastewater AA of CIAC, respectively, as of July 31, 2001.

Commission Order No. PSC-00-1675-PAA-WS required the utility to increase its water and wastewater CIAC balances by \$3,230 and \$34,867, respectively, as of August 30, 1999.

The above Order also required corresponding adjustments that reduced water AA of CIAC by \$3,808 and increased wastewater AA of CIAC by \$59,101 as of August 30, 1999.

Rule 25-30.140 8(a), F.A.C., requires utilities to use a composite plant amortization rate to amortize CIAC when plant specific rates cannot be determined.

Recommendation: The utility's water and wastewater CIAC balances should be increased by \$3,230 and \$34,867, respectively, to reconcile the utility's CIAC balances as of August 31, 1999, per the Order cited above.

The utility's water AA of CIAC balance is overstated by \$4,241 and its wastewater AA of CIAC balance is understated by \$74,635 because of the following audit staff findings.

- 1) Water AA of CIAC should be reduced by \$3,808 and wastewater AA of CIAC should be increased by \$59,101 to reconcile the utility's AA of CIAC balances as of August 31, 1999, per the Order cited above.
- 2) Water AA of CIAC should be reduced by \$434 for the period August 31, 1999, through July 31, 2001, because it did not use the composite plant amortization rate to amortize CIAC per the rule cited above and the associated effect of not increasing its water CIAC balance as stated above.
- 3) Wastewater AA of CIAC should be increased by \$15,570 for the period August 31, 1999, through July 31, 2001, because it did not use the composite plant amortization rate to amortize CIAC per the rule cited above and the associated effect of not increasing its wastewater CIAC balance as stated above.

The Commission should require the utility to increase its water and wastewater CIAC balances by \$3,230 and \$34,867, respectively, with corresponding adjustments that reduce its water AA of CIAC balance by \$4,241 and increase its wastewater AA of CIAC balance by \$74,461 to properly record the prior Commission Order cited above and to record AA of CIAC additions per the audit staff's findings discussed above.

Additionally, the audit staff has calculated water and wastewater AA of CIAC expenses of \$2,411 and \$16,147, respectively, for the 12-month period ended July 31, 2001.

Exception No. 6

Subject: Revenues

Statement of Fact: Palm Valley does not have a complete general ledger (GL) for its continuing operations. The audit staff was provided with the monthly Profit and Loss (PL) statements for 2000 and 2001 for its utility operations that are maintained on a cash basis accounting system. Additionally, the utility makes calendar year-end adjustments to these reports when they are transferred to its Annual Report filed with the Commission.

The sum of the combined revenues from its PL statements was \$43,708 for the 12-month period ended July 31, 2001.

Recommendation: The utility provides water and wastewater services to 55 residential customers in the Fox Run subdivision and to the Palm Valley mobile home community. The 55 residential customers are billed monthly tariffed rates based on individual water meter readings. Palm Valley mobile home park's bill is calculated using the tariffed rate times the difference between the master water meter reading at the water plant and the combined water meter reading for the 55 customers in Fox Run.

The audit staff believes that the utility's revenues reported in its monthly PL statements discussed above are not an accurate measure for the 12-month period ended July 31, 2001, because of the cash basis accounting system used and the lack of year-end adjustments.

The audit staff has calculated estimated water and wastewater revenues of \$35,817 and \$37,885, respectively, for the 12-month period ended July 31, 2001, based on the following information.

- 1) Utility billing analysis of the 55 customers in Fox Run subdivision using the actual monthly meter readings for individual customers
- 2) Monthly water meter readings from the utility's master meter at the water plant
- 3) The utility's Commission-approved water and wastewater tariffs

See the audit staff calculations on the following page.

Exception No. 6, continued

<u>Month</u>	<u>Master Meter</u>	<u>Fox Run</u>	<u>(Note)</u>	<u>Palm Valley</u>	<u>(Note)</u>
Aug00	6,606,000	470,881	A	6,135,119	A
Sep00	7,506,000	791,240		6,714,760	
Oct00	6,696,000	607,017		6,088,983	
Nov00	3,768,047	662,000		3,106,047	
Dec00	4,073,000	527,710		3,545,290	
Jan01	4,932,700	602,380		4,330,320	
Feb01	3,829,000	572,290		3,256,710	
Mar01	3,848,000	423,720		3,424,280	
Apr01	6,911,000	661,180		6,249,820	
May01	6,574,000	616,300		5,957,700	
Jun01	6,339,000	526,350		5,812,650	
Jul01	3,278,000	584,422	B	2,693,578	
	64,360,747	7,045,490		57,315,257	
		<u>Water Revenues</u>		<u>Wastewater Revenues</u>	
Palm Valley Gallon		\$30,950.24	C	\$32,096.54	F
Fox Run Base		1,775.40	D	5,788.20	G
Fox Run Gallon		<u>3,091.76</u>	E	_____	
Total Revenues		\$35,817.40		\$37,884.74	

Notes:

- A The Palm Valley water consumption is calculated as the difference between the master water meter reading and the sum of the actual monthly water meter readings for the Fox Run subdivision.
- B The Fox Run subdivision's consumption for July 2001 is calculated as the average consumption for the previous 12-month period because no water meter readings were taken in July due to high ground water levels that covered the meter boxes.
- C The Palm Valley 12-month water revenues are calculated as $((57,315,257/1,000)*\$0.54)$ from the utility tariff.
- D The Fox Run base rate water revenues are calculated as $(660*\$2.69)$ where 660 $(55*12)$ is the annual number of customer bills and \$2.69 is the minimum bill per customer per month from the utility tariff.
- E The Fox Run 12-month gallon rate for water revenues is calculated as $((7,045,490 - 1,320,000)*\$0.54)$ where 1,320,000 $(55*12*2,000)$ is the minimum usage included in the Fox Run base rate discussed in Note D above and \$0.54 is from the utility tariff.
- F The Palm Valley 12-month wastewater revenues are calculated as $((57,315,257/1,000)*\$0.56)$ from the utility tariff.
- G The Fox Run wastewater revenues are calculated as $(55*12*\$8.77)$ from the utility tariff.

Exception No. 7

Subject: Operation and Maintenance (O&M) Expense

Statement of Fact: Palm Valley does not have a complete general ledger (GL) for its continuing operations. The audit staff was provided with the monthly Profit and Loss (PL) statements for 2000 and 2001 for its utility operations that are maintained on a cash basis accounting system. Additionally, the utility makes calendar year-end adjustments to these reports when they are transferred to its Annual Report filed with the Commission.

The sum of the combined PL statements for utility water and wastewater O&M expenses was \$156,966 for the 12-month period ended July 31, 2001.

Rule 25-30.433(8), F.A.C., requires that non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified.

NARUC Class C Balance Sheet Account 186, Miscellaneous Deferred Debits includes such costs which the Commission has authorized the utility to amortize over future periods.

NARUC Class C Income Account 408, Taxes Other Than Income includes the amount of ad valorem, gross revenue or gross receipts taxes, regulatory agency general assessments for purposes of public utility regulation, state unemployment insurance, franchise taxes, federal excise taxes, social security taxes, and all other taxes assessed by federal, state, county, municipal, or other local governmental authorities.

Recommendation: The audit staff believes that the utility water and wastewater O&M expenses reported in its monthly PL statements discussed above are not an accurate measure for the 12-month period ended July 31, 2001, because of the issues discussed below.

- 1) The utility's PL statements use a cash basis of accounting and do not include year-end adjustments and allocations.
- 2) The utility's PL statements include \$6,127.65 of nonrecurring costs that should be recorded as miscellaneous deferred debits, of which \$1,351.28 should be amortized back to O&M expense per the rule cited above.
- 3) The utility's PL statements included \$7,520.02 of property taxes, municipal taxes and payroll taxes that should be recorded in Account 408 per the rule cited above.
- 4) The utility's PL statements include \$1,197.76 of costs that do not have supporting documentation.
- 5) The utility's PL statements do not include \$2,800 of the contractor's costs that should be recorded as O&M expense.

The audit staff has calculated water and wastewater O&M expenses of \$32,992 and \$113,279 for the 12-month period ended July 31, 2001. See the schedules on the following page for details.

Additionally, the utility's working capital allowance for water and wastewater rate base is \$4,124 and \$14,160, respectively, using 1/8 of O&M expenses determined above.

Exception No. 7, continued

Item Description	Amount	Add	Remove	Adjustment
Per Company PL Statements for O&M Expense				\$156,965.93
Rate Case Expense:				
Invoice totals	2,515.00		(2,515.00)	(2,515.00)
Amortize over four years	628.75	628.75		628.75
Deferred	1,886.25			
Consumptive use permit renewal				
Invoice totals	3,612.65		(3,612.65)	(3,612.65)
Amortize over five years	722.53	722.53		722.53
Deferred	2,890.12			
Remove taxes from PL				
Invoice totals	7,520.02		(7,520.02)	(7,520.02)
Remove unsupported amounts				
Account entry totals	1,197.76		(1,197.76)	(1,197.76)
Non-recurring major maintenance to wastewater disposal fields				
Invoice totals	14,000.00			
Amortize over five years	2,800.00	2,800.00		2,800.00
Deferred	11,200.00			
Per Audit PL Statements for O&M Expense				\$146,271.78

Exception No. 8

Subject: Taxes Other Than Income (TOTI)

Statement of Fact: Palm Valley does not have a complete general ledger (GL) for its continuing operations. The audit staff was provided with the monthly Profit and Loss (PL) statements for 2000 and 2001 for its utility operations that are maintained on a cash basis accounting system. Additionally, the utility makes calendar year-end adjustments to these reports when they are transferred to its Annual Report filed with the Commission.

Recommendation: As discussed in Exception No. 7 of this report, the utility included items that should be recorded as TOTI in its calculation of water and wastewater O&M expenses in its PL statements.

The audit staff believes that the utility's tax expense reported in its monthly PL statements discussed above is not an accurate measure for the 12-month period ended July 31, 2001, because of the cash basis accounting system used and the lack of year-end adjustments.

The audit staff has calculated water and wastewater TOTI expenses of \$7,540 and \$17,490, respectively, for the 12-month period ended July 31, 2001, using the following information.

<u>Taxing Authority</u>	<u>Basis of tax</u>	<u>Tax Rate</u>	<u>Water</u>	<u>Wastewater</u>
Seminole County	Municipal service tax on revenues of \$35,817.40 (Exception No. 6 of this report)	4.000%	\$1,432.70	
FPSC	Regulatory Assessment Fees on revenues of \$37,250.10 (See Note A below.)	4.500%	\$1,676.30	
FPSC	Regulatory Assessment Fees on revenues of \$37,884.74 (Exception No. 6 of this report)	4.500%		\$1,704.81
FICA	Utility documents		\$1,475.97	\$1,475.97
Seminole County	Ad valorem tax and tangible property tax on utility property		<u>\$2,954.89</u>	<u>\$14,308.88</u>
	Total TOTI		\$7,539.86	\$17,489.66

Note A Regulatory Assessment Fees are calculated on gross utility revenues including Seminole County's municipal service tax on the utility's water revenues. ($\$35,817.40 + \$1,432.70 = \$37,250.10$)

Exception No. 9

Subject: Capital Structure

Statement of Fact: The utility's 2000 Annual Report indicates balances of (\$202,948) and \$998,504 for retained earnings and affiliated debt, respectively.

On July 31, 2001, Chateau Communities, Inc. completed a merger with CWS Communities Trust who is the sole shareholder of CWS Communities LP, the utility's parent.

Order No. PSC-96-1404-FOF-GU, issued November 20, 1996, requires the use of the parent's capital structure for any utility that does not raise its own capital and whose parent company is the source of investor capital.

Recommendation: The balances for retained earnings and affiliated debt indicated above do not actually represent the actual capital and liability position for the utility. The audit staff's discussion with the utility's CPA firm that prepares its Annual Report indicates that the balances are adjusting entries used to make the utility's Annual Report balance sheet balance based on utility operations for the year reported.

The Commission should use the capital structure of the utility's parent, CWS Communities Trust, in this rate proceeding per the Order cited above.

The audit staff has calculated an average total debt and shareholders' equity of \$365,247,691 with an average weighted cost of 9.04 percent as of December 31, 2000, based on the utility parent's, CWS Communities Trust, 2000 audited financial statements. The company's 2000 financial statements were used because they provide the most recent financial information of the parent company that was subject to an independent party's review. See Exhibit V of this report for the audit staff's calculations.

Exception No. 10

Subject: Customer Deposits

Statement of Fact: Utility records indicate a balance of \$875 in customer deposits as of July 31, 2001, for 35 utility customers in the Fox Run subdivision.

Rule 25-30.311, F.A.C., requires utilities to pay 6 percent interest on customer deposits. Additionally, it requires utilities to refund customer deposits after 23 months of continuous service with good payment history.

Order No. PSC-94-0394-FOF-PU, issued April 7, 1994, changed the amount of interest on customer deposits from 8 percent to the 6 percent rate discussed above as of April 25, 1994.

The utility's tariff for customer deposits incorporates the text of the rule cited above and authorizes a new customer deposit of \$25 (\$10 for water and \$15 for wastewater service).

Recommendation: Documents provided by the utility indicate that 22 of 35 customer deposits are for customers with continuous service in excess of the 23 months discussed in the rule above.

Additionally, the utility has never paid any interest on customer deposits, which is the written policy in its application for utility service.

The audit staff has calculated that the utility owes accrued interest of \$188.39 to its current customers and should be required to refund \$550 (22*\$25) of customer deposits to the 22 customers that exceed 23 months of continuous service.

The balance of customer deposits is \$325 (\$875-\$550).

Disclosure No. 1

Subject: Reuse Water Service

Statement of Fact: The utility has installed major UPIS additions to its wastewater system to allow it to begin offering reuse water for irrigation purposes to its customers. These additions have been identified in Exception No. 2 of this report.

The additions have created a reuse distribution system for future and existing utility customers which the utility placed in operation as of July 1, 2001. The utility does not currently have a Commission-authorized tariff rate nor does it charge a rate to customers for reuse water service.

The audit staff's billing analysis prepared for Exception No. 6 of this report illustrates the dramatic reduction in finished water produced at the utility's master meter when comparing the June 2001 reading to the July 2001 reading which is when the reuse system was placed in service.

June 2001 6,339,000 gallons -versus- July 2001 3,278,000 gallons

Recommendation: Although some of the reduction in water produced may be attributable to a high rainfall during July 2001 in the utility's service territory, a larger effect may be attributable to the use of reuse water for irrigation purposes.

The effect of the new reuse system on the utility's water and wastewater revenues and O&M expenses may be material in setting its future rate structure.

Audit staff defers this issue to the analyst and engineer in Tallahassee.

Disclosure No 2.

Subject: Wastewater Projected Annual Cost Increase

Statement of Fact: The company enlists the services of a local landscape company to maintain the grounds around the mobile home park and the water and wastewater plant sites. The utility receives an allocated portion of the cost associated with the service.

On May 22, 2001, the utility received a warning letter from the Department of Environmental Protection that expressed concerns about the utility's routine maintenance of the wastewater dipper fields that are used to dispose of treated effluent.

Recommendation: The utility responded by having its landscape company mentioned above clear out the dipper field and begin a program of monthly routine maintenance.

The additional cost for this service is \$1,774 per month.

The utility's current O&M expense includes only two months of bills for \$3,548 for this service.

The audit staff calculates an increased annual expense of \$21,288 for the increased level of service.

The audit staff defers this issue to the analyst in Tallahassee.

EXHIBIT I

**CWS COMMUNITIES LP
D/B/A PALM VALLEY
WATER RATE BASE
DOCKET NUMBER 010823-WS
STAFF-ASSISTED RATE CASE
AS OF JULY 31, 2001**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO(2)	PER AUDIT(1)
UTILITY PLANT-IN-SERVICE	\$285,865	\$547,779	E-2	\$833,644
LAND & LAND RIGHTS	2,433	0		2,433
CONTRIBUTIONS-IN-AID- OF-CONSTRUCTION (CIAC)	(89,509)	(3,230)	E-5	(92,739)
ACCUMULATED DEPRECIATION	(228,501)	(825)	E-4	(229,326)
ACCUMULATED AMORTIZATION OF CIAC	51,078	(4,241)	E-5	46,837
WORKING CAPITAL(3)	<u>0</u>	<u>4,124</u>	E-7	<u>4,124</u>
TOTAL	\$21,366	\$543,607		\$564,973

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.
- 2) Audit adjustments do not include Audit Disclosures.
- 3) Working Capital calculated as 1/8 of O&M Expenses.

EXHIBIT II

**CWS COMMUNITIES LP
D/B/A PALM VALLEY
WASTEWATER RATE BASE
DOCKET NUMBER 010823-WS
STAFF-ASSISTED RATE CASE
AS OF JULY 31, 2001**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO(2)	PER AUDIT(1)
UTILITY PLANT-IN-SERVICE	\$1,134,245	\$795,164	E-2	\$1,929,409
LAND & LAND RIGHTS	116,298	(19,889)	E-3	96,409
CONTRIBUTIONS-IN-AID- OF-CONSTRUCTION (CIAC)	(390,046)	(34,867)	E-5	(424,913)
ACCUMULATED DEPRECIATION	(398,125)	(227,867)	E-4	(625,992)
ACCUMULATED AMORTIZATION OF CIAC	118,202	74,635	E5	192,837
WORKING CAPITAL(3)	<u>0</u>	<u>14,160</u>	E-7	<u>14,160</u>
TOTAL	\$580,574	\$601,336		\$1,181,910

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.
- 2) Audit adjustments do not include Audit Disclosures.
- 3) Working Capital calculated as 1/8 of O&M Expenses.

EXHIBIT III

**CWS COMMUNITIES LP
D/B/A PALM VALLEY
WATER NET OPERATING INCOME
DOCKET NUMBER 010823-WS
STAFF-ASSISTED RATE CASE
12-MONTH PERIOD ENDED JULY 31, 2001**

DESCRIPTION	PER UTILITY(1)(2)	AUDIT EXCEPTION(1)	REFER TO(3)	PER AUDIT(1)
OPERATING REVENUES	\$0	\$35,817	E-6	\$35,817
OPERATING EXPENSE:	*****	*****		*****
O&M EXPENSE	0	32,992	E-7	32,992
DEPRECIATION EXPENSE	0	21,683	E-4	21,683
AMORTIZATION EXPENSE	0	(2,411)	E-5	(2,411)
TAXES OTHER THAN INCOME	<u>0</u>	<u>7,540</u>	E-8	<u>7,540</u>
TOTAL OPERATING EXPENSE	<u>\$0</u>	<u>\$59,804</u>		<u>\$59,804</u>
NET OPERATING INCOME	\$0	(\$23,987)		(\$23,987)

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.
- 2) Utility O&M could not be determined. See Exception No. 1 of this report for details.
- 3) Audit adjustments do not include Audit Disclosures.
- 4) The parent company is organized as a Real Estate Investment Trust(REIT) for federal tax purposes. Income is distributed to its shareholders for tax reporting purposes

EXHIBIT IV

**CWS COMMUNITIES LP
D/B/A PALM VALLEY
WASTEWATER NET OPERATING INCOME
DOCKET NUMBER 010823-WS
STAFF-ASSISTED RATE CASE
12-MONTH PERIOD ENDED JULY 31, 2001**

DESCRIPTION	PER UTILITY(1)(2)	AUDIT EXCEPTION(1)	REFER TO(3)	PER AUDIT(1)
OPERATING REVENUES	\$0	\$37,885	E-6	\$37,885
OPERATING EXPENSE:	*****	*****		*****
O&M EXPENSE	0	113,279	E-7	113,279
DEPRECIATION EXPENSE	0	73,323	E-4	73,323
AMORTIZATION EXPENSE	0	(16,147)	E-5	(16,147)
TAXES OTHER THAN INCOME	<u>0</u>	<u>17,490</u>	E-8	<u>17,490</u>
TOTAL OPERATING EXPENSE	<u>\$0</u>	<u>\$187,945</u>		<u>\$187,945</u>
NET OPERATING INCOME	\$0	(\$150,060)		(\$150,060)

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.
- 2) Utility O&M could not be determined. See Exception No. 1 of this report for details.
- 3) Audit adjustments do not include Audit Disclosures.
- 4) The parent company is organized as a Real Estate Investment Trust(REIT) for federal tax purposes. Income is distributed to its shareholders for tax reporting purposes

EXHIBIT V

**CWS COMMUNITIES TRUST
THE PARENT OF
CWS COMMUNITIES LP
D/B/A PALM VALLEY
AVERAGE CAPITAL STRUCTURE
DOCKET NUMBER 010823-WS
STAFF ASSISTED RATE CASE
AS OF DECEMBER 31, 2000**

Account Description	Per Utility(1)	Audit Adjustment(1)	Refer To(2)	Per Audit(1)	Ratio	Cost Rate(3)	Weighted Cost Rate(1)
Short-term Debt	\$0	\$39,664,587		\$39,664,587	10.86%	8.47%	0.92%
Long-term-Debt	0	92,930,352		92,930,352	25.44%	7.91%	2.01%
Common Equity	0	232,652,427		232,652,427	63.70%	9.58%	6.10%
Customer Deposits(4)	<u>875</u>	<u>(550)</u>	E-10	<u>325</u>	<u>0.00%</u>	6.00%	0.00%
Total Debt and Equity	\$875	\$365,246,816	E-9	\$365,247,691	100.00%		9.04%

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.
- 2) Audit adjustments do not include audit disclosures.
- 3) Cost rate for common equity established in Order No. PSC-00-1162-PAA-WS, issued June 26, 2000
- 4) Customer deposits reported by the utility