

State of Florida



Public Service Commission

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

DATE: December 12, 2001
TO: Division of Economic Regulation (Greene)
FROM: Division of Regulatory Oversight (Vandiver) *W*
RE: Docket No. 010492-WS ; Zellwood Station Co-op, Inc.; Audit Purpose: Rate Case Audit; Audit Control No.01-087-3-1

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.

DNV/jcp
Attachment

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

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES

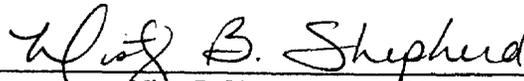
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ZELLWOOD STATION CO-OP, INC.

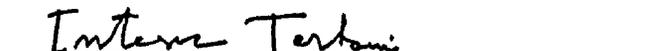
FILE AND SUSPEND RATE CASE PROCEEDING

HISTORICAL PERIOD ENDED DECEMBER 31, 2000

DOCKET NO. 010492-WS
AUDIT CONTROL NO. 01-087-3-1


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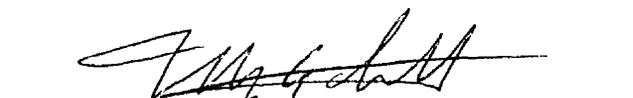

Jeffery A. Small, Professional Accountant Specialist

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

December 4, 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 for Rate Base, Net Operating Income, and Capital Structure for the historical 12-month period ended December 31, 2000, for Zellwood Station Co-op, Inc. These schedules were prepared by the utility as part of its petition for rate relief in Docket No. 010492-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 books and records are not in compliance with the NARUC Uniform System of Accounts.

The utility's utility-plant-in-service (UPIS) is overstated by \$175,691 and \$142,263 for water and wastewater, respectively.

The utility's accumulated depreciation accounts are overstated by \$47,815 and \$49,635 for water and wastewater, respectively. The utility's depreciation expense is overstated by \$7,631 and \$6,672 for water and wastewater, respectively.

The utility's taxes other than income (TOTI) are understated by \$95 and \$1,137 for water and wastewater, respectively, due to the effects of UPIS adjustments in Exception No.3 of this report.

The utility's contributions-in-aid-of-construction (CIAC) are understated by \$50,947 and \$660 for water and wastewater, respectively.

The utility's accumulated amortization of CIAC is understated by \$6,226 for water, and overstated by \$42 for wastewater. Amortization expense is overstated by \$11,990 for water and understated by \$34 for wastewater.

The appropriate capital structure to use in this case should be that of the company's.

The utility's revenues are understated by \$9,648 and \$1,712, for water and wastewater, respectively.

Due to Regulatory Assessment Fees calculated on auditor-adjusted revenues in Exception No.6 of this report, TOTI are also understated by \$262 and \$77 for water and wastewater.

The utility's operations and maintenance (O&M) expenses are overstated by \$19,329 and \$20,645 for water and wastewater, respectively.

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 utility. 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.

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

Company - The combined business operations of Zellwood Station Co-op, Inc. including its utility operations

Utility - The regulated utility operations of Zellwood Station Co-op, Inc.

RATE BASE: Examined account balances for utility-plant-in-service (UPIS), contributions-in-aid-of-construction (CIAC), accumulated depreciation and accumulated amortization of CIAC from the date the utility began operations through December 31, 2000. Tested plant account balances. Examined supporting documentation for CIAC additions and agreed to FPSC-approved tariff amounts. Compiled working capital accounts. Tested additions to accumulated depreciation and accumulated amortization of CIAC for proper rates and calculations.

NET OPERATING INCOME: Compiled utility revenue and operation and maintenance accounts for the 12-month period ended December 31, 2000. Chose a judgmental sample of customer bills and recalculated using FPSC-approved rates. Tested a sample of operation and maintenance expenses and examined the invoices and other supporting documentation. Tested the calculation of depreciation expense. Examined support for taxes other than income.

CAPITAL STRUCTURE: Compiled components of the company's capital structure as of December 31, 2000. Agreed interest expense to the terms of debt instruments. Confirmed balances at December 31, 2000, with the bank.

OTHER: Read external audit work papers for years 1998 through 2000 and Board of Directors' Minutes for the 12-month period ended December 31, 2000. Audited the utility's 2000 Regulatory Assessment Fee returns filed with the Commission.

Exception No. 1

Subject: Utility Books and Records

Statement of Facts: Rule 25-30.115 (1), Florida Administrative Code (F.A.C.), requires all water and wastewater utilities to maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts (USOA).

Rule 25-30.450, F.A.C., states,

In each instance, the utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the utility. The work sheets, etc., supporting the schedules and data submitted must be organized in a systematic and rational manner so as to enable Commission staff to verify the schedules in an expedient manner and minimum amount of time. The supporting work sheets, etc., shall list all reference sources necessary to enable Commission staff to track to original source of entry into the financial and accounting system and, in addition, verify amounts to the appropriate schedules.

Zellwood Station Co-op, Inc. was purchased by the current owners in 1993. Order No. PSC-98-1572-FOF-WS, issued on November 23, 1998, granted Zellwood its water and wastewater certificates. In January 1999, the company separated its books and records for utility operations from other business operations and created accounts in accordance with USOA.

Recommendation: The utility's books and records are not in substantial compliance with the rules cited above. The utility's use of USOA account numbers in itself does not constitute substantial compliance with the NARUC USOA. The utility has little knowledge of NARUC accounting instructions and proper account treatment.

Some of the problems encountered by the audit staff are detailed below.

- 1) The utility was unsuccessful on several occasions in its efforts to reconcile balances reported in the MFRs to its General Ledger.
- 2) The utility was unable to provide support for any balances prior to 1999.
- 3) The utility recorded several items in the incorrect accounts.
- 4) The utility capitalized items that should have been expensed.

The Commission should require the utility to maintain its accounting system in compliance with the NARUC USOA, per the rule cited above.

Exception No. 2

Subject: 1999 GAAP Adjustment

Statement of Facts: In years 1997 and 1998, the company incurred start-up costs related to the creation of a separate utility accounting system for NARUC purposes.

Effective January 1, 1999, the company adopted Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-Up Activities," issued by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants. The adoption of SOP 98-5 required the company to expense all start-up costs as incurred. The cumulative effect of this change in accounting principle was to reduce retained earnings by \$261,000 as of December 31, 1999, for all costs incurred prior to 1999.

The utility's MFRs reflected expenses of \$19,106 each, for Accounts 666 and 766, Regulatory Commission Rate Case Expense for the 12-month period ended December 31, 2000, which were included in the above-mentioned start-up costs.

The utility's MFRs reflected capital additions of \$9,023 each, for Accounts 340 and 390, water and wastewater Office Furniture & Equipment as of December 31, 2000, which were included in start-up costs of \$38,611 which the company expensed during 1999.

Recommendation: Although the company created the utility as a separate accounting entity for NARUC purposes, the company continues to file a consolidated federal tax return that includes its utility operations in one set of consolidated company books. With the adoption of SOP 98-5, all company incurred start-up costs, for years prior to 1999 were written off in 1999, and any future costs were to be expensed. Therefore, there is no longer a balance to expense for the year 2000 or any future period. Additionally, the capitalized costs incurred during 1999 should have been expensed.

The Commission should require the utility to reduce Accounts 666 and 667 by \$19,106 to prevent a double recovery of the above-mentioned start-up costs and reduce Accounts 340 and 390 by \$9,023 each to consistently follow SOP 98-5. These recommended adjustments are included in Exceptions Nos. 3 and 7 of this report.

Exception No. 3

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

Statement of Facts: The utility MFRs reported UPIS balances of \$1,813,479 and \$2,056,550 for water and wastewater, respectively. Of these amounts, the audit staff examined \$286,652 and \$142,264 for water and wastewater, respectively. The remaining balances of \$1,526,827 and \$1,914,286 were determined by an Original Cost Study performed by utility-hired engineers.

The utility MFRs also reported adjusted accumulated depreciation balances of (\$758,408) and (\$1,266,978) for water and wastewater, respectively, and adjusted depreciation expense balances of \$53,169 and \$140,579 for water and wastewater, respectively.

Recommendation: The audit staff has deferred judgment on the Original Cost Study amounts to Commission engineers. Of the audited amount listed above, the audit staff has noted the following adjustments to UPIS.

- 1) The utility was unable to provide support for \$89,478 and \$127,935 for water and wastewater accounts, respectively. The utility should reduce UPIS by these amounts.
- 2) The utility capitalized start-up costs of \$9,023 to Accounts 340 and 390 water and wastewater Office Equipment, that should have been expensed per adoption of SOP 98-5. See Audit Exception No. 2 of this report.
- 3) The utility included labor costs of \$77,096 in Account 334, Meters and Meter Installation for work performed by a utility employee whose salary was expensed each year to Account 601, Salaries and Wages.
- 4) The utility capitalized \$95 to both water and wastewater Accounts 348 and 398, Other Tangible Plant & Equipment for an annual fee paid to the Department of Community Affairs. This amount should be reclassified to Account 408, Taxes Other than Income.
- 5) The utility included \$5,211 in Account 398, Other Tangible Plant & Equipment. This amount was related to the renewal of a five-year permit fee. This amount should be removed from Account 398 and amortized to Account 408, Taxes Other than Income over a five-year period, with any remaining balance being held in Account 186, Miscellaneous Deferred Debits.

See Schedule A on the following page for details.

Exception No. 3, continued

Schedule A

<u>Acct #</u>	<u>Account Title</u>	<u>Adjustment</u>	<u>Ref.</u>	<u>Corresponding Acc. Dep. Adjustment</u>
301	Organization	(\$59,836)	1	(\$24,002)
302	Franchise	(5,333)	1	(5,550.00)
334	Meters & Meter Installation	(77,096)	3	(12,908.00)
340	Office Furniture & Equipment	(9,827)	1, 2	(1,638.00)
341	Transportation Equipment	(1,250)	1	(521.00)
342	Stores Equipment	(18,076)	1	0.00
343	Tools, Shop & Garage Equip	(2,089)	1	(2,824.00)
347	Miscellaneous Equipment	(2,089)	1	(348.00)
398	Other Tangible Plant Equipment	<u>(95)</u>	4	<u>(24.00)</u>
	Total Water Adjustment	(\$175,691)		(\$47,815)
351	Organization	(\$87,748)	1	(\$31,763)
352	Franchise	(8,113)	1	(7,188)
390	Office Furniture & Equipment	(10,203)	1, 2	(1,701)
391	Transportation Equipment	(1,321)	1	(550)
393	Tools, Shop & Garage Equip.	(3,063)	1	(479)
398	Other Tangible Plant Equipment	<u>(31,815)</u>	1,4,5	<u>(7,954)</u>
	Total Wastewater Adjustment	(\$142,263)		(\$49,635)

The Commission should require the utility to reduce UPIS by \$175,691 and \$142,263, for water and wastewater, respectively. The utility should also increase Account 408, Taxes Other Than Income, by \$95 and \$1,137 for water and wastewater, respectively, to reclassify permit fees.

Furthermore, the Commission should require the utility to reduce accumulated depreciation by \$47,815 for water and \$49,635 for wastewater and reduce depreciation expense by \$7,631 and \$6,672 for water and wastewater, respectively, based on the above-mentioned plant adjustments.

Exception No. 4

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

Statement of Fact: The utility MFRs balances for CIAC were \$1,197,453 for water and \$1,215,684 for wastewater as of December 31, 2000.

The MFRs balances for CIAC accumulated amortization were \$440,635 for water and \$563,574 for wastewater as of December 31, 2000.

The MFRs amounts for CIAC amortization expense were \$27,234 for water and \$32,983 for wastewater for the 12-month period ended December 31, 2000.

Per NARUC, Account No. 271, Contribution in Aid of Construction, this account shall include:

Any amount or item of money, services or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility, and which is utilized to offset the acquisition, improvement or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public.

Per Contract #98H319, Agreement for Construction and Monitoring of a Water Conservation Project, dated September 23, 1998, the utility received \$50,000 from the St. Johns River Water Management District for the purchase and installation of water meters on December 4, 1998. The utility classified this amount as Other Zero Cost Capital in its MFRs.

Per the utility's tariffs, the following service availability charges should be collected.

Water:

Meter Installation Fee	\$193
Plant Capacity Charge - Per ERC	141
Reserve Capacity Charge - Per ERC	<u>61</u>
Total:	\$395

Wastewater:

Plant Capacity Charge - Per ERC	\$125
Reserve Capacity Charge - Per ERC	<u>95</u>
Total:	\$220

Exception No. 4, continued

Recommendation: Water CIAC should be increased by \$50,947 as of December 31, 2000, per Schedule A that follows. Wastewater CIAC should be increased by \$660 as of December 31, 2000, per Schedule B on the following page.

Water CIAC accumulated amortization should be increased by \$6,226 for water and decreased by \$42 for wastewater as of December 31, 2000, per Schedule C on the following page.

Water CIAC amortization expense should be decreased by \$11,990 for water and increased by \$34 for wastewater for the 12-month period ended December 31, 2000 per Schedule C on the following page.

Schedule A

Water CIAC:

Date	Contributor	Amount Per Audit	Amount Per MFRs	Recommended Adjustment	Description
12/04/98	St. Johns River Water Mgt	\$50,000	\$0	\$50,000	Recorded in Capital
04/06/99	Rolling Hills Church	818	818	0	Recorded
09/17/99	Ferrill	395	395	0	Recorded
12/01/99	Lamarch Realty	395	0	395	Unrecorded CIAC
12/06/99	Monk	395	0	395	Unrecorded CIAC
07/14/00	Lassiter (a)	395	410	(15)	Connection Fee
07/12/00	Nuss (a)	395	410	(15)	Connection Fee
07/12/00	Holland (a)	395	410	(15)	Connection Fee
04/25/00	D'Alessandro	395	193	202	\$202 Recorded in Revenues
12/31/00	Imputed	<u>1,194,817</u>	<u>1,194,817</u>	<u>0</u>	Original Cost Study
	Total	<u>\$1,248,400</u>	<u>\$1,197,453</u>	<u>\$50,947</u>	

(a) The difference of \$15 (\$410 - \$395) should be recorded as revenues. See Exception No. 6 for the reduction to revenues of \$1,185 (\$395 + \$395 + \$395). In the MFRs, these amounts were included in CIAC but were not removed from revenues. The general ledger has these amounts recorded as revenues

Exception No. 4, continued

Schedule B

Wastewater CIAC:

Date	Contributor	Amount per Audit	Amount per MFRs	Recommended Adjustment	Description
09/17/99	Ferrill	\$220	\$220	0	Recorded
12/01/99	Lamarch Realty	220	220	0	Recorded
12/06/99	Monk	220	220	0	Recorded
07/14/00	Lassiter	220	0	220	Recorded as Revenues
07/12/00	Nuss	220	0	220	Recorded as Revenues
07/12/00	Holland	220	0	220	Recorded as Revenues
04/25/00	D'Alessandro (b)	220	220	0	Recorded
12/31/00	Imputed	<u>1,214,804</u>	<u>1,214,804</u>	<u>0</u>	Original Cost Study
	Total	<u>\$1,216,344</u>	<u>\$1,215,684</u>	<u>\$660</u>	

(b) In the MFRs, this amount was included in CIAC but was not removed from revenues. In the general ledger, this amount was included in revenues. See Exception No. 6 for the reduction to revenues of \$880 (\$220 + \$220 + \$220 + 220).

Schedule C

Water and Wastewater CIAC Accumulated Amortization and Expense:

Item	Amount Per Audit	Amount Per MFRs	Recommended Adjustment
CIAC Accumulated Amortization -Water	\$446,861	\$440,635	\$6,226
CIAC Accumulated Amortization -Wastewater (c)	\$563,532	\$563,574	(\$42)
CIAC Amortization Expense - Water (d)	\$15,244	\$27,234	(\$11,990)
CIAC Amortization Expense - Wastewater	\$33,017	\$32,983	\$34

(c) The utility used a composite rate of 15 years to amortize its actual CIAC collected. The audit staff used a composite rate of 32 years, Account No. 354, Structures & Improvements to amortize actual CIAC collected. This rate was used due to the CIAC being collected for plant capacity.

(d) According to the MFRs accumulated amortization schedule, the amount that should have recorded as CIAC amortization expense was \$12,751, which partially accounts for the \$11,990 difference

Exception No. 5

Subject: Capital Structure

Statement of Facts: The utility's capital structure put forth in the MFRs includes the following balances, \$1,200,000, \$400,358, and \$50,000, as of December 31, 2000.

The \$1,200,000 balance is a line of credit established in 2001 with the Bank of America. There have been no draws on this line of credit as of November 1, 2001. The \$400,358 balance is a loan from Bank of America, issued October 15, 1998. This is the remaining principal balance as of November 20, 2000. The \$50,000 balance is a grant from the St. Johns Water Management District, issued on December 4, 1998.

It has been the Commission's policy in the past to use the company's capital structure in circumstances where the utility would be unable to secure debt on its own, as referenced in Order No. 12191, issued July 1, 1983, and Order No. PSC 96-1404 FOF-GU, issued November 20, 1996.

Rule 25-30.433(4), states that, "The averaging method used by the Commission to calculate rate base and cost of capital shall be a 13-month average for Class A utilities and the simple beginning and end-of-year average for Class B and C utilities."

Recommendation: The \$1,200,000 should not be included in capital structure for test year purposes since it was not established until 2001. Furthermore, the amount is only potential debt until the funds are drawn upon by the utility. The grant from the St. Johns Water Management should not be included either. It represents funds given to the utility for assistance and carries no obligation for repayment. Therefore, the amount should be treated as contributions-in-aid-of-construction. See Audit Exception No. 4 of this report.

In following with prior Commission policy, as cited above, the appropriate capital structure used for purposes of this rate case should be the company's since the utility does not receive funding on its own.

The long-term debt established with the Bank of America is secured by property belonging to the company. There is also a long-term outstanding balance on the books of the company for a mortgage which includes utility property. The audit staff has put forth the company's capital structure.

See Schedule A on the following page for details.

Exception No. 5, continued

Schedule A

**ZELLWOOD STATION CO-OP, INC.
AVERAGE CAPITAL STRUCTURE
DOCKET NO. 010492-WS
FILE & SUSPEND RATE CASE
AS OF DECEMBER 31, 2000**

Description	Balance @ 12/31/00	Balance @ 12/31/99	Average	Ratio	Cost Rate(3)	Weighted Cost Rate(1)
Long-term-Debt (2)	\$399,486	\$410,450	404,968	2.42%	7.02%	0.17%
Long-term Debt	4,815,818	4,946,859	4,881,339	29.15%	7.78%	2.27%
Common Equity	11,403,168	11,514,071	11,458,620	68.43%	9.94%	6.80%
Customer Deposits	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
Total Debt and Equity	\$16,618,472	\$16,871,380	\$16,744,926	100.00%		9.24%

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.
- 2) The MFRs report a balance of \$400,358. This balance is as of November 20, 2000. The audit staff used proper year-end balance as of December 20, 2000.
- 3) Cost rate for common equity was established in Order No PSC-00-1162-PAA-WS, issued June 26, 2000

Exception No. 6

Subject: Revenues-2000

Statement of Fact: The utility recorded revenues of \$236,012 for water and \$256,638 for wastewater in its MFRs for the 12-month period ended 2000.

Per Commission Order No.11241-A issued, November 15, 1982, “We find the practice of providing free water to be discriminatory, and we hereby require the utility to perform meter readings and charge these customers, consistent with this opinion, for all water consumption.”

Per NARUC, Account No. 271, Contribution in Aid of Construction, this account shall include:

Any amount or item of money, services or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility, and which is utilized to offset the acquisition, improvement or construction costs of the utility’s property, facilities, or equipment used to provide utility services to the public.

Recommendation: The MFRs revenues should be increased by \$9,648 for water and \$1,712 for wastewater for the 12-month period ended December 31, 2000. The details of these amounts are shown on the Water Revenue Adjustments and Wastewater Revenue Adjustments Schedules on the following pages.

Water revenues balance should be \$245,660 ($\$236,012 + \$9,648$) for the 12-month period ended December 31, 2000.

Wastewater revenues balance should be \$258,350 ($\$256,638 + \$1,712$) for the 12-month period ended December 31, 2000.

As shown on the Water Revenue Adjustment Schedule, a reduction of \$583 should be recorded to water operation and maintenance expenses.

The MFRs Regulatory Assessment Fees (RAFs) should be increased by \$262 for water and \$77 for wastewater for the 12-month period ended December 31, 2000. See the Water and Wastewater RAFs Adjustments Schedules on the following pages for more details.

Exception No. 6, continued

Water Revenue Adjustments Schedule:

Item	Amount	Reason
GC106 & GC107	\$142	Golf course meters - unbilled Aug 00 - Dec 00
Manual Entries	1,146	Manual entries not recorded in the G/L or MFRs
WTPLT	203	Water treatment plant meter - unbilled
WWPLT	192	Wastewater treatment plant meter - unbilled
SPIRR	9,082	Spillman Irrigation meter - unbilled
CHBLD	(545)	Clubhouse meter billed @ 2" - should be 1 1/2"
CRVCA	938	Citrus Ridge Condo billed @ 1" - should be 2"
Reimbursement (a)	(583)	Reimb. for broken water line repair recorded as revenues
Lessees	460	Lessees that are not charged the \$20 normal reconnection fee
CIAC	(202)	CIAC recorded as revenues.
CIAC	<u>(1,185)</u>	CIAC recorded as revenues.
Total:	<u>\$9,648</u>	

(a) This amount should have been recorded as an offset to Account No. 636, Contractual Services - Other, for the repair of the broken water line. See Exception No 7 for the adjustment to expenses.

Exception No. 6, continued

Wastewater Revenue Adjustments Schedule:

Item	Amount	Reason
Manual Entries	\$1,515	Manual entries not recorded in the G/L or MFRs
CHBLD	(733)	Clubhouse meter billed @ 2" - should be 1 ½"
CRVCA	1,351	Citrus Ridge Condo billed @ 1" - should be 2"
Lessees	460	Lessees that are not charged the \$20 normal connection fee
CIAC	<u>(880)</u>	CIAC recorded as revenues
Total:	<u>\$1,712</u>	

Water RAFs Adjustments:

\$245,660	4.5%	\$11,055
RAFs per MFRs		<u>10,793</u>
Difference		<u>\$262</u>

Wastewater RAFs Adjustments:

\$258,350	4.5%	\$11,626
RAFs per MFRs		<u>11,549</u>
Difference		<u>\$77</u>

Exception No. 7

Subject: Operation & Maintenance (O&M) Expenses

Statement of Fact: The utility MFRs reported an adjusted O & M balance of \$157,943 and \$225,345 for water and wastewater, respectively. The MRFs also reported adjusted working capital allowance of \$19,743 and \$28,168 for water and wastewater, respectively.

Recommendation: Of the amounts listed above, the audit staff proposes the following adjustments:

- 1) The utility reported an adjustment of \$3,500 to Account 736, Contractual Services - Other that should be removed, because it did not provide any support for this adjustment.
- 2) The utility received benefit of company-owned property consisting of a backhoe and riding mower. The audit adjustment is to increase Accounts 642 and 742, Rental Equipment \$360 and \$3,016 for the water and wastewater, respectively.
- 3) The utility reported a balance of \$29,535 in Account 715, Purchased Power. This amount included a lift station and other nonutility equipment. The audit staff's adjustment removes \$1,055 of nonutility purchased power expense.
- 4) Accounts 666 and 766, Regulatory Commission Expense - Rate Case Amortization reflects a balance of \$19,106. The audit staff removed this amount in Exception No. 2 of this report.
- 5) The utility received a reimbursement for repairs. This amount should reduce Account 636, Contractual Services - Other by \$583. See Exception No. 6 of this report.

See Schedule A on the following page for details.

Exception No. 7, continued

Schedule A

Adjustment Number	Amount		Effect on Working Capital	
	Water	Wastewater	Water	Wastewater
1		(\$3,500)		(\$438)
2	360	3,016	45	377
3		(1,055)		(132)
4	(19,106)	<u>(19,106)</u>	(2,388)	<u>(2,388)</u>
5	<u>(583)</u>		<u>(73)</u>	
Totals	(\$19,329)	(\$20,645)	(\$2,416)	(\$2,581)

The Commission should require the utility to reduce O & M by \$19,329 and \$20,645 for water and wastewater, respectively, as described above for the 12-month period ending December 31, 2000. Furthermore, the Commission should require the utility to reduce working capital by \$2,416 and \$2,581 for water and wastewater, respectively, for the 12-month period ending December 31, 2000.

The working capital adjustment is calculated at one-eighth of the O & M adjustments.

Disclosure No. 1

Subject: Pro Forma Plant

Statement of Fact: The utility MFRs reported adjustments of \$65,000 and \$1,207,300 to water and wastewater, respectively, for pro forma additions. They also included adjustments of (\$2,071) and (\$62,346) to accumulated depreciation and test year depreciation expense for water and wastewater, respectively.

Recommendation: These adjustments provide for a new hydropneumatic tank at a cost of \$55,000 and meter replacements at a cost of \$10,000 for the water plant. The adjustments also allow for \$91,800 to refurbish sewer lines and \$1,115,500 in construction costs for a new reuse facility for the wastewater plant.

Audit staff has examined third party bids for the \$55,000 tank and the \$91,800 sewer line refurbishment. Invoices totaling \$199,435 have been provided by the utility for costs incurred in 2001 on the construction of the reuse facility. The \$10,000 water meter replacement program is based on engineering estimates, and no further documentation was provided.

The \$55,000 tank will replace an old tank that is near the end of its useful life. In considering this pro forma addition, Commission staff should also consider the retirement of the old tank. The current hydropneumatic tank is listed in the Original Cost Study for \$29,444 and has an accumulated depreciation balance of \$21,452. The effect of this tank on depreciation expense is \$842.

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

Disclosure No. 2

Subject: Land

Statement of Facts: The utility's MFRs reported land balances of \$5,200 and \$57,400, for water and wastewater, respectively. The Commission has not established rate base for this utility, and subsequently, no land value has been approved as yet. The utility property includes .52 acres for the water plant and well sites and 5.74 for the wastewater plant.

Background information on the utility provided in Order No. PSC-98-1572-FOF-WS, indicated the utility was constructed in 1975.

Zellwood Station Co-op, Inc. received the land from Zellwood Station LTD in 1993 (OR Book 4629, Page 2875) which received the land from Caymen Development Corp. in 1981 (OR Book 3249, Page 2387). Caymen Development Corp. received the land from Luther H. Hodge in 1974 (OR Book 2522, Page 730) which received the land from Orange State Security, Inc. in 1973 (OR Book 2454, Page 1983).

The audit staff has obtained a copy of the Warranty Deed that transfers utility property to Zellwood Station Co-op, Inc., dated September 30, 1993.

Recommendation: The audit staff researched land documents and followed the above-mentioned chain of title. The Warranty Deed transferring title from Orange State Securities, Inc. to Luther H. Hodge, included documentary stamps of \$115.95 which translates into a purchase price of \$38,650. This appears to be an unreasonably low price, considering the amount of land involved in this transaction.

The Commission should require the utility to get a market price appraisal based on comparable 1973 sales to establish the value of utility land when first dedicated to public service.

Disclosure No. 3

Subject: Audit of 2001 Revenues and Utility's Adjustment to 2000 Revenues

Statement of Fact: The Audit Service Request requested that an audit of the 2001 revenues be performed.

The utility made adjustments to increase 2000 revenues by \$18,846 for water and \$4,054 for wastewater in its MFRs.

Recommendation: The audit staff chose September 30, 2001, as the cut off date to perform an audit on 2001 revenues. Due to time constraints and the poor condition of the utility's record keeping, the audit of the 2001 revenues could not be completed by the audit due date of December 7, 2001.

Also, due to time constraints, the audit staff did not complete an audit on the above 2000 revenue adjustments.

An audit will be completed on the above amounts by December 14, 2001, and a supplemental audit report and work papers will be issued.

Disclosure No. 4

Subject: Allocation of Expenses

Statement of Fact: The utility shares office space with the company in its administration building.

The MFRs indicate that the utility recorded the following expenses for the 12-month period ended December 31, 2000.

<u>NARUC</u> <u>Account</u>	<u>Description</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
601/701	Salaries & Wages-Employees	\$50,641	\$96,971	\$148,213
615/715	Purchased Power	\$21,700	\$40,000	\$62,315
636/736	Contractual Services - Other	\$12,514	\$8,678	\$21,828
641/741	Rental of Bldg. / Real Property	\$6,251	\$6,251	\$13,143
675/775	Miscellaneous Expenses	\$4,032	\$5,000	\$9,707

The following company-allocated amounts to utility operations are included in the above balances.

- 1) \$10,375 each for water and wastewater expenses in Accounts 601 and 701 respectively
- 2) \$1,200 each for water and wastewater expenses in Accounts 615 and 617, respectively
- 3) \$1,500 each for water and wastewater expenses in Accounts 636 and 736, respectively
- 4) \$5,750 each for water and wastewater expenses in Accounts 641 and 741, respectively
- 5) \$3,165 each for water and wastewater expenses in Accounts 675 and 775, respectively

Recommendation: The new company manager did not agree with the allocation of the office expenses that were recorded in the MFRs as indicated above. He requested that the company be allowed to charge the utility \$23,205 each for water and wastewater expenses to Accounts Nos. 636 and 736 for office rent, office electric, office supplies, and administrative office salaries, which is based on the square footage as charged to Lamarch Realty, an outside vendor.

Final disposition is deferred to the analyst.

Disclosure No. 5

Subject: Pro Forma Expenses

Statement of Fact: Schedule B-3, pages 1 and 2 of the MFRs included the following adjustments to the 12-month period ended December 31, 2000.

Water:

Rehabilitation of distribution lines	\$5,000	
5-year amortization of inspection/repair of storage tank	1,000	
7-year amortization of leak detection program **	1,071	
Inspection of wells	<u>1,000</u>	
	Total	\$8,071

Wastewater:

Increase operator staffing requirements	\$60,400	
Decrease sludge removal cost due to reuse plant efficiency	(4,775)	
Increase power usage for reuse plant	10,465	
Decrease chemical due to reuse plant efficiency	(5,527)	
Increase cost due to new Class 1 reuse plant	<u>1,106</u>	
	Total	\$61,669

Recommendation: No bids or invoices were provided to support the above pro forma expenses. These estimates were based on the engineer's experience.

Final disposition is deferred to the analyst.

** The utility is a member of Florida Rural Water. As a benefit to its members, Florida Rural Water performs leak detection services.

Disclosure No. 6

Subject: Rate Case Expense

Statement of Fact: The MFRs indicate that the utility included the following rate case expenses for this rate proceeding.

- 1) Excel Engineering Consultants, Inc. for \$46,550
- 2) Gray Harris and Robinson, P.A. for \$50,000

The utility incurred the following rate case expenses that are not reflected in its MFRs for the 12-month period ended December 31, 2000.

- 1) APD Computer Services, Inc. for \$4,373
- 2) Florida Public Service Commission for \$4,000

Recommendation: The audit staff has compiled \$96,518 of the above-mentioned rate case expenses.

The invoices for legal and engineering fees compiled above included non-rate case and non-utility expenses which the audit staff could not differentiate.

The Commission should require the utility differentiate these and future legal and engineering expenses incurred this rate proceeding.

Final disposition is deferred to the analyst.

EXHIBIT I

Schedule of Water Rate Base

Florida Public Service Commission

Company: Zellwood Station Co-op, Inc.
 Docket No.: 010492-WS
 Test Year Ended: December 31, 2000
 Interim [] Final [X]
 Historical [X] Projected []

REVISED 10/01/01

Schedule: A-1
 Page 1 of 2
 Preparer: C. K. Lewis

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant In Service	\$1,813,479	0	\$1,813,479	A-5
2	Utility Land & Land Rights	5,200	0	5,200	A-5
3	Less: Non-Used & Useful Plant	0	(156,065)	(156,065)	A-7
4	Pro Forma Plant	0	\$65,000	65,000	A-3
5	Less: Accumulated Depreciation	(758,338)	(\$2,071)	(758,408)	A-3
6	Less: CIAC	(1,197,358)	0	(1,197,358)	A-12
7	Accumulated Amortization of CIAC	434,280	0	434,280	A-14
8	Acquisition Adjustments	0	0	0	-
9	Accum. Amort. of Acq. Adjustments	0	0	0	-
10	Non-Used & Useful Acc Depreciation	0	\$66,861	66,861	A-3/A-9
11	Working Capital Allowance	19,533	209	19,743	A-17
12	Total Rate Base	<u>\$318,779</u> =====	<u>(\$28,066)</u> =====	<u>\$292,713</u> =====	

EXHIBIT II

Schedule of Sewer Rate Base

Florida Public Service Commission

Company: Zellwood Station Co-op, Inc.
 Docket No.: 010492-WVS
 Test Year Ended: December 31, 2000
 Interim Final
 Historical Projected

REVISED 10/01/01

Schedule: A-2
 Page 1 of 2
 Preparer: C. K. Lewis

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant In Service	\$2,058,550	0	\$2,058,550	A-8
2	Utility Land & Land Rights	57,400	0	57,400	A-8
3	Less: Non-Used & Useful Plant	0	(374,241)	(374,241)	A-7
4	Pro Forma Plant	0	\$1,207,300	1,207,300	A-3
5	Less: Accumulated Depreciation	(1,204,633)	(\$62,346)	(1,266,978)	A-3
6	Less: CIAC	(1,215,684)	0	(1,215,684)	A-12
7	Accumulated Amortization of CIAC	547,053	0	547,053	A-14
8	Acquisition Adjustments	0	0	0	--
9	Accum. Amort. of Acq. Adjustments	0	0	0	-
10	Non-Used & Useful Acc Depreciation	0	\$263,384	263,384	A-3/A-8
11	Working Capital Allowance	20,691	7,477	28,168	A-17
12	Total Rate Base	<u>\$281,377</u> *****	<u>\$1,041,575</u> *****	<u>\$1,302,952</u> *****	

EXHIBIT III

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Zellwood Station Co-op, Inc.
 Docket No.: 010492-WS
 Test Year Ended: December 31, 2000
 Historic [X] or Projected []

REVISED 10/01/01

Schedule: B-1
 Page 1 of 1
 Preparer: C.K. Lewis

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$236,012	\$18,846	\$254,858	(\$40,583)	\$214,275	B-4
2	Operation & Maintenance	156,268	1,675	157,943	0	157,943	B-5
3	Depreciation, net of CIAC Amort.	23,863	(2,443)	21,420	0	21,420	B-13
4	Taxes Other Than Income	\$26,597	(10,721)	15,876	(1,826)	14,050	B-15
5	Provision for Income Taxes	0	0	0	0	0	C-1
6	OPERATING EXPENSES	206,728	(11,489)	195,239	(1,826)	193,413	
7	NET OPERATING INCOME	\$29,284	\$30,335	\$59,619	(\$38,757)	\$20,862	
8	RATE BASE	\$318,779	(\$28,066)	\$292,713		\$292,713	A-1
9	RATE OF RETURN	9.19%		20.37%		7.13%	D-1

EXHIBIT IV

Schedule of Wastewater Net Operating Income

Company: Zellwood Station Co-op, Inc.
 Docket No.: 010492-WS
 Test Year Ended: December 31, 2000
 Historic [X] or Projected []

REVISED 10/01/01

Florida Public Service Commission

Schedule: B-2
 Page 1 of 1

Preparer: C.K. Lewis

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$256,638	\$4,054	\$260,692	\$184,540	\$445,232	B-4
2	Operation & Maintenance	165,525	59,820	225,345	0	225,345	B-6
3	Depreciation, net of CIAC Amort.	45,251	58,698	103,949	0	103,949	B-14
4	Taxes Other Than Income	28,193	(13,424)	14,769	8,304	23,074	B-15
5	Provision for Income Taxes	0	0	0	0	0	C-1
6	OPERATING EXPENSES	238,969	105,094	344,063	8,304	352,368	
7	NET OPERATING INCOME	\$17,669	(\$101,040)	(\$83,371)	\$178,236	\$92,864	
8	RATE BASE	\$281,377	\$1,041,575	\$1,302,952		\$1,302,952	A-2
9	RATE OF RETURN	6.76%		-6.40%		7.13%	D-1

EXHIBIT V

Schedule of Requested Cost of Capital
Beginning and End of Year Average

Florida Public Service Commission

Company: Zellwood Station Co-op, Inc.
Docket No.: 010492-WS
Test Year Ended: December 31, 2000
Utility or Parent
Historic or Projected

REVISED 10/01/01

Schedule: D-1
Page 1 of 1
Preparer: C.K. Lewis

Subsidiary or Consolidated

Explanation: Provide a schedule which calculates the requested Cost of Capital on a beginning and end of year average basis. If a year-end basis is used submit an additional schedule reflecting year-end calculations.

Line No.	Class of Capital	(1) Reconciled To Requested Rate Base	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Bank of America Loan # 2	\$1,160,232	72.71%	7.50%	5.45%
2	Bank of America Loan # 1	\$387,090	24.26%	6.90%	1.67%
3	Preferred Stock		0.00%		
4	Customer Deposits		0.00%		
5	Common Equity		0.00%		
6	Tax Credits - Zero Cost		0.00%		
7	Tax Credits - Wtd. Cost		0.00%		
8	Accum. Deferred Income Taxes		0.00%		
9	Other Zero Cost Capital (1)	\$48,343	3.03%	0.00%	0.00%
10	Total	\$1,595,665	100.00%		7.13%

Note: (1) \$50,000 Grant from St. Johns Water Management District Issued on December 4, 1998.

Supporting Schedules: D-2

Recap Schedules: A-1,A-2