

State of Florida



Public Service Commission  
-M-E-M-O-R-A-N-D-U-M-

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**DATE:** August 7, 2002  
**TO:** Division of Economic Regulation (Fitch)  
**FROM:** Division of Auditing and Safety (Vandiver) *W*  
**RE:** **Docket No.** 020406-WU; **Company Name:** Pinecrest Ranches, Inc.; **Audit Purpose:** Staff assisted rate case; **Audit Control No.** 02-149-2-1

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Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, 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 Auditing and Safety (Hoppe, District Offices, File Folder)  
Division of the Commission Clerk and Administrative Services (2)  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel  
Office of Public Counsel

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DOCUMENT # 02-149-2-1

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# FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY OVERSIGHT  
BUREAU OF AUDITING*

*TAMPA DISTRICT OFFICE*

**PINECREST RANCHES, INC.**

**STAFF ASSISTED RATE CASE**

**FOR THE PROJECTED TWELVE MONTHS ENDED DECEMBER 31, 2002**

**Docket No. 020406-WU**

**AFA Control No. 02-149-2-1**

A handwritten signature in black ink, appearing to read "V. C. Aldridge".

*Vincent C. Aldridge, Audit Manager*

A handwritten signature in black ink, appearing to read "James A. McPherson".

*James A. McPherson, Tampa District Supervisor*

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**DIVISION OF AUDITING AND SAFETY  
AUDIT REPORT**

**JULY 23, 2002**

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

We have applied the procedures described later in this report to prepare the accompanying schedules of Net Operating Income and Capital Structure for the projected twelve month period ended December 31, 2002, for Pinecrest Ranches, Inc. These schedules were prepared as a part of a Staff Assisted Rate Case. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

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 has not been maintaining the utility's accounts and records in accordance with the NARUC Uniform System of Accounts as required by Rule 25-30.115, Florida Administrative Code. Many utility transactions were and still are being paid for by a related party. Because of that, many of the O&M expenses reflected on the Net Operating Income (NOI) schedule are estimates and projections made by the utility without much more than reasonableness testing done to them.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

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

**NET OPERATING INCOME:** Compiled revenues and expenses for April, May and June, 2002. Projected revenues based on three months actual billings. Projected O&M expenses based on three months actual, utility estimates or prior years amounts.

**CAPITAL STRUCTURE:** Compiled the capital structure.

**OTHER:** Obtained estimate of costs to install meters throughout the utility system. Obtained valuations for sales of vacant land in Polk county during the period from July 1986 through June 1987.

## **Disclosure No. 1**

### **Subject: Audit of Pinecrest Utilities, Inc.**

**Statement of Fact:** Pinecrest Utilities, Inc. was purchased by its current owners on March 15, 2002. The utility has been undergoing a “transitional” phase since its change in ownership. The new owners have not, until very recently, been maintaining the utility’s accounts and records in accordance with the NARUC Uniform System of Accounts as required by Rule 25-30.115, Florida Administrative Code. Many utility costs are being paid for by a related party and are not properly reflected in the utility’s books. The utility has recently contracted with an individual with an accounting background to provide bookkeeping and secretarial services. This new person should make a positive difference in the maintenance of utility records. She is currently attempting to construct a general ledger which will reflect utility transactions since April 1, 2002. Unfortunately, there is not enough time to completely construct a general ledger with the supporting documentation needed before this audit report is due. Because of that, many of the O&M expenses reflected on the Net Operating Income (NOI) schedule are estimates and projections made by the utility. For some expenses such as purchased power and chemicals, we used last year’s amounts under the previous ownership. The total O&M expense amount is projected to be \$45,017 (see attached schedule).

The utility currently has flat rates, but has decided to install meters and request metered rates. Rather than do a traditional certificate transfer audit in order to establish rate base, the utility decided to file for a staff assisted rate case in order to expedite the setting of metered rates.

The utility recorded \$5,281 in revenues for April, May and June of 2002. When annualized, this projects out to \$21,125 in annual revenues. We used the annualized \$21,125 on the NOI schedule.

It was determined that the utility did not have supporting documentation for its plant assets, so an original cost study is being performed. We only audited actual and projected additions to be made by the new owners (see Disclosure #2). We did not calculate any depreciation expense or amortization of contributions in aid of construction.



### Disclosure No. 3

#### Subject: Land

**Statement of Fact:** The utility has 3.56 acres of land valued at \$16,500 on its books. This is where the utility's well is located. Per discussion with the prior owners of the utility, the land in question had been owned by the prior owners since the 1950s or 1960s and used as a citrus grove. In 1987 the owners developed the land, which is when the utility came into existence. When asked how the land came to be valued at \$16,500 on the utility's books, the prior owner's outside accountant stated that she was sure it was an allocation of the original cost of the larger piece of property that was being developed, however she was unable to provide any support for the valuation.

As a result, we did some research through the Polk County Property Appraiser's office in an attempt to find sales of like property that occurred between 6/30/1986 and 6/30/1987. We confined my search to vacant property with a use code of "pasture" and found six sales that occurred during this time period as follows:

<u>Current Owner</u>	<u>Sales Date</u>	<u>Acreage</u>	<u>Sales Price</u>	<u>Price Per Acre</u>
E A McLeod	10/01/1986	40	\$60,000	\$1,500
Roscoe Thornhill	07/01/1986	10	\$35,000	\$3,500
Gloria Habeck	03/01/1987	15.5	\$40,000	\$2,581
Ronald Miller	01/01/1987	25	\$141,100	\$5,644
Fred Martin	12/01/1986	6.71	\$20,000	\$2,981
Lowell Hamilton	12/01/1986	20.5	\$40,000	\$1,951

The utility's land is 3.56 acres valued at 16,500 or \$4,635 an acre.

This information is provided to assist the analyst in determining the value of the utility's land as part of the ongoing original cost study.

The utility's water supply well sits in the middle of this property. The engineer should probably designate a portion of the land as held for future use or non-utility, as there appears to be more land than is needed for a well site.



**Disclosure No. 2**

**Subject: Installation of Meters**

**Statement of Fact:** The utility is in the process of installing meters throughout the water system. The utility estimates a total installation cost of \$19,418 to install 127 meters or \$153 each. As of June 30, 2002 the utility had installed 38 meters.

**Recommendation:** This information is provided to assist the analyst in determining an appropriate amount of rate base.

Docket 020406-WU

Net Operating Income

Staff Assisted Rate Case

Projected Test Year Ended 12/31/02

	<u>Per Books</u> <u>April-June 2002</u>	<u>Audit and Annualizing</u> <u>Adjustments</u>	<u>Per Audit</u> <u>12/31/02</u>
Operating Revenues	5,281	15,844	21,125
O&M Expenses	15,075	29,942	45,017
Depreciation Expense	-	-	-
Amortization of CIAC	-	-	-
Taxes- Other	0	1,532	1,532
Total Profit (Loss)	(9,794)	(15,630)	(25,424)

Note: An original cost study is being performed, therefore depreciation expense and amortization of CIAC were not calculated.

Note: Utility is a Subchapter S Corporation and therefore pays no income tax.

Pinecrest Ranches, Inc.

Exhibit II

Docket 020406-WU

Capital Structure

Staff Assisted Rate Case

	<u>Per Utility @ 12/31/00</u>	<u>Per Utility @ 12/31/01</u>	<u>Audit Adjustments</u>	<u>Ref</u>	<u>Per Audit @ 12/31/01</u>	<u>Average @ 12/31/01</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost of Capital</u>
Common Stock	100	100	0		100	100			
Pd In Capital	107,488	107,488	0		107,488	107,488			
Retained Earnings	9,368	(2,431)			(2,431)	3,469			
Common Equity	<b>116,956</b>	<b>105,157</b>	<b>0</b>		<b>105,157</b>	<b>111,057</b>	<b>100.00%</b>	<b>10.23%</b>	
Long-Term Debt	0	0	0		0	0	0.00%	0.00%	
Customer Deposits	0	0	0		0	0	0.00%	0.00%	
<b>Total</b>	<b>116,956</b>	<b>105,157</b>	<b>0</b>		<b>105,157</b>	<b>111,057</b>	<b>100.00%</b>	<b>10.23%</b>	

Note: Equity based on leverage formula in Order No. PSC-02-0898-PAA-WS