



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

DATE: June 11, 2003
TO: Division of Economic Regulation (Johnson)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Docket No.** 030236-WS; **Company Name:** Pennbrooke Utilities, Inc.; **Audit Purpose:** Establish current rate base as of the date of transfer; **Audit Control No.** 03-094-3-1

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 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

Mr. Frank H. Haas, President
Pennbrooke Utilities, Inc.

Mr. Arthur H. Erickson, Vice President
Pennbrooke Utilities, Inc.

Mr. Donald Rassmussen, Vice President
Utilities, Inc. of Pennbrooke

Mr. Carl J. Wenz
Utilities, Inc. of Pennbrooke

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Rose Law Firm

DOCUMENT NUMBER 1441

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*


Orlando District Office

PENNBROOKE UTILITIES, INC.

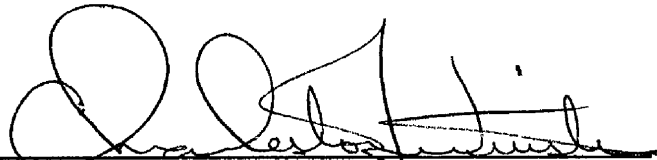
RATE BASE DETERMINATION AUDIT

AS OF APRIL 30, 2003

**DOCKET NO. 030236-WS
AUDIT CONTROL NO. 03-094-3-1**



Misty B. Shepherd, Audit Manager



Charleston J. Winston, District Audit Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

June 5, 2003

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 as of April 30, 2003, for Pennbrooke Utilities, Inc. The attached schedules were assembled by the audit staff as part of our work in the utility's Rate Base Determination Audit, Docket No. 030236-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 rate base balances are \$413,713 and \$846,850, respectively, as of April 30, 2003.

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.

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

RATE BASE: Verified utility-plant-in-service and accumulated depreciation additions as of April 30, 2003. Reconciled rate base balances authorized in Commission Order No. PSC- 01-1246-PAA-WS, issued June 4, 2001, to the utility's general ledger. Verified contributions-in-aid-of-construction and accumulated amortization additions as of April 30, 2003.

OTHER: Verified the existing rates charged by the utility for water and wastewater services.

Disclosure No. 1

Subject: Date of Transfer

Statement of Facts: Pennbrooke Utilities, Inc. entered into a contract with Utilities, Inc. on February 25, 2003, to sell its water supply and distribution system, as well as its wastewater collection and treatment system. Stated within the contract is Pennbrooke's obligation to continue the maintenance and operation of the facilities as well as make any necessary capital additions, until the date of closing. On the date of closing, Pennbrooke will surrender control and ownership of all the utility's property as well as the books and records maintained on the utility's behalf.

In most circumstances, rate base would be audited as of the date of transfer. However, in this particular case, the transfer has not yet occurred and will not occur until the Commission gives its final approval. Therefore, additions to rate base, at the expense of Pennbrooke and not included in this audit, will continue until the date of closing.

Recommendation: Commission staff should consider the above facts when determining the amount of rate base being transferred in this sale.

Disclosure No. 2

Subject: Agreement to Provide Water at No Charge

Statement of Facts: Leisure Communities Ltd. is the parent company to Pennbrooke Utilities Inc., as well as the developer of the housing area being serviced by the utility. Leisure Communities Ltd. manages and controls the Club at Pennbrooke Fairways, Inc., a clubhouse and golf course facility provided for the benefit of homeowners living in the development.

The Club at Pennbrooke Fairways, Inc. has been named a beneficiary to the contract between Pennbrooke Utilities, Inc. and Utilities, Inc. in that it will receive reuse water from the utility at no charge for a minimum of five years subsequent to the date of closing. The contract further states that the purchaser and seller have acknowledged the Commission's authority to approve the purchaser's ability to recover this cost from the utility customers.

Recommendation: The Commission staff should be aware of this agreement for the purpose of approving this transfer as well as for future audits and other issues pertaining to this particular utility.

EXHIBIT I

**PENNBROOKE UTILITES, INC.
WATER RATE BASE
DOCKET NO. 030236-WS
RATE BASE DETERMINATION AUDIT
AS OF APRIL 30, 2003**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO	PER AUDIT(1)
UTILITY PLANT-IN-SERVICE	\$1,629,187	\$0		\$1,629,187
LAND & LAND RIGHTS	21,115	0		21,115
CONTRIBUTIONS-IN-AID- OF-CONSTRUCTION (CIAC)	(842,934)	0		(842,934)
ACCUMULATED DEPRECIATION	(599,268)	0		(599,268)
ACCUMULATED AMORTIZATION OF CIAC	205,612	0		205,612
TOTAL	\$413,713	\$0		\$413,713

FOOTNOTES:

1) Small differences can be attributed to rounding errors.

EXHIBIT II

**PENNBROOKE UTILITES, INC.
WASTEWATER RATE BASE
DOCKET NO. 030236-WS
RATE BASE DETERMINATION AUDIT
AS OF APRIL 30, 2003**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO	PER AUDIT(1)
UTILITY PLANT-IN-SERVICE	\$2,239,024		\$0	\$2,239,024
LAND & LAND RIGHTS	57,035		0	57,035
CONTRIBUTIONS-IN-AID- OF-CONSTRUCTION (CIAC)	(1,195,631)		0	(1,195,631)
ACCUMULATED DEPRECIATION	(561,267)		0	(561,267)
ACCUMULATED AMORTIZATION OF CIAC	307,689		0	307,689
TOTAL	\$846,850		\$0	\$846,850

FOOTNOTES:

- 1) Small differences can be attributed to rounding errors.