



Public Service Commission

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

DATE: September 12, 2003
TO: Division of Competitive Markets and Enforcement (Brady)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Docket No.** 030407-WS; **Company Name:** Springside at Manatee, Ltd.;
Audit Purpose: Establish Rate Base at Transfer as of December 31, 2002;
Audit Control No. 03-177-3-1

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

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

Orlando District Office

SPRINGSIDE AT MANATEE, LTD.

ESTABLISH RATE BASE AT TRANSFER

AS OF DECEMBER 31, 2002

**DOCKET NO. 030407-WS
AUDIT CONTROL NO. 03-177-3-1**

A handwritten signature in cursive script, appearing to read "Richard F. Brown".

Richard F. Brown, Audit Manager

A handwritten signature in cursive script, appearing to read "Charleston J. Winston".

Charleston J. Winston, 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 | 2 |
| II. EXCEPTIONS | |
| 1. BOOKS AND RECORDS | 3 |
| 2. UTILITY-PLANT-IN-SERVICE | 4 |
| 3. ACCUMULATED DEPRECIATION | 5 |
| 4. CIAC AND RELATED AMORTIZATION | 6 |
| 5. CUSTOMER UNDERBILLING | 8 |
| III. EXHIBITS | |
| WATER RATE BASE | 9 |
| WASTEWATER RATE BASE | 10 |

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

September 3, 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 December 31, 2201, for Springside at Manatee, Ltd. The attached schedules were prepared by the audit staff as part of our work in Docket No. 030407-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 were not in compliance with NARUC and the Commission Rules.

Water utility-plant-in-service (UPIS) was understated by \$3,002, and wastewater UPIS was overstated by \$3,410.

Water and wastewater accumulated depreciation were understated by \$17,729 and \$35,894, respectively.

Water and wastewater contributions-in-aid-of-construction (CIAC) were understated by \$4,706 and \$13,248, respectively.

Water and wastewater accumulated amortization of CIAC were understated by \$1,849 and \$4,416, 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 the 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.

Verified - The item was tested for accuracy and compared to the substantiating documentation.

RATE BASE: Prepared Springside at Manatee, Ltd.'s water and wastewater rate bases as of December 31, 2002. Compiled all plant and CIAC additions acquired from January 1, 1991 through December 31, 2002, and verified to supporting documentation. Established rate base component balances per Order No. PSC-92-0190-FOF-WS, issued April 13, 1992. Recomputed accumulated depreciation and amortization as of December 31, 2002.

OTHER: Scanned Federal Income Tax Returns for the 2000 through 2003 years. Recalculated a sample of 2002 customer bills.

Exception No. 1

Subject: Books and Records

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

NARUC, Class C, Accounting Instruction 2.A., states,

The books and accounts of all water and wastewater utilities shall be kept by the double entry method on an accrual basis. Each utility shall keep its books of accounts monthly and shall close its books at the end of each calendar year.

NARUC, Class C, Accounting Instruction 2.B., requires all water and wastewater utilities to maintain their books and records so that,

All books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries.

Recommendation: The utility was not in compliance with the aforementioned instructions as it does not maintain books of accounts other than billing records.

The utility does not maintain a general ledger. The audit staff determined the rate base components by beginning with the balances established per Order No. PSC-92-0190-FOF-WS, issued April 13, 1992. The audit staff added to these balances our compilation of the additions acquired from January 1, 1991 through December 31, 2002.

The Commission should direct the utility to maintain its books and records in accordance with the above instructions and rules.

Exception No. 2

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

Statement of Fact: Water and wastewater UPIS per Springside at Manatee, Ltd.'s Annual Report at December 31, 2002, was \$92,545 and \$197,801, respectively.

The water and wastewater UPIS as of December 31, 1990, per Commission Order No. PSC-0190-FOF-WS were \$89,192 and \$189,843, respectively.

Recommendation: The water and wastewater plant additions acquired from January 1, 1991 through December 31, 2002, according to the audit staff examination, were \$6,355 and \$4,548, respectively.

The water and wastewater UPIS as of December 31, 2002, per the audit staff, were \$95,547 (\$89,192 + \$6,355) and \$194,391 (\$189,843 + \$4,548), respectively.

The audit staff recommends that the water UPIS be increased by \$3,002 (\$95,547 - \$92,545) and wastewater UPIS be reduced by \$3,410 (\$197,801 - \$194,391) to reconcile with the audit staff balances as of December 31, 2002.

Exception No. 3

Subject: Accumulated Depreciation

Statement of Fact: The water and wastewater accumulated depreciation per Springside at Manatee, Ltd.'s Annual Report as of December 31, 2002, were \$34,785 and \$94,968, respectively.

The respective water and wastewater accumulated depreciation as of December 31, 1990, per Commission Order No. PSC-92-0190-FOF-WS were \$17,306 and \$40,318.

Recommendation: The water and wastewater depreciation as of December 31, 2002, on the per Order UPIS balances at December 31, 1990, were \$33,838 and \$89,956, respectively, per the audit staff computation in accordance with Rule 25-30.140, F.A.C., rates.

The water and wastewater depreciation on UPIS additions acquired from January 1, 1991 through December 31, 2002, per the audit staff, in accordance with Rule 25-30.140, F.A.C., rates were \$1,370 and \$588, respectively.

The water and wastewater accumulated depreciation as of December 31, 2002, per the audit staff are \$52,514 ($\$17,306 + \$33,838 + \$1,370$) and \$130,862 ($\$40,318 + \$89,956 + \588), respectively.

It is recommended that the water and wastewater accumulated depreciation be increased by \$17,729 ($\$52,514 - \$34,785$) and \$35,894 ($\$130,862 - \$94,968$), respectively, to reconcile to the audit staff balances as of December 31, 2002.

Exception No. 4

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

Statement of Fact: The water and wastewater CIAC per Springside at Manatee, Ltd.'s Annual Report as of December 31, 2002, were \$8,669 and \$16,202, respectively. The water and wastewater accumulated amortization were \$2,923 and \$6,309, respectively.

The respective water and wastewater CIAC as of December 31, 1990, per Commission Order No. PSC-92-0190-FOF-WS were \$10,200 and \$22,800. The water and wastewater accumulated amortization were \$794 and \$1,865, respectively.

Recommendation: The water and wastewater CIAC additions acquired from January 1, 1991 through December 31, 2002, according to the audit staff examination were \$3,175 and \$6,650, respectively.

The water and wastewater amortization as of December 31, 2002, on the per Order CIAC balances at December 31, 1990 balances were \$3,794 and \$8,482, respectively. Water and wastewater amortization as of December 31, 2002, on CIAC additions acquired from January 1, 1991 through December 31, 2002, were \$184 and \$378, respectively.

The audit staff recommends the adjustments as follows.

| <u>Water CIAC</u> | |
|--|----------------|
| Order No. PSC-92-0190 CIAC balance @12-31-90 | \$10,200 |
| Additions 1/01/91 through 12/31/02 | <u>3,175</u> |
| Audit staff-adjusted balance @12/31/02 | \$13,375 |
| Utility balance @12/31/02 | <u>8,669</u> |
| Audit staff-recommended adjustment | <u>\$4,706</u> |

| <u>Wastewater CIAC</u> | |
|--|-----------------|
| Order No. PSC-92-0190 CIAC balance @12-31-90 | \$22,800 |
| Additions 1/01/91 through 12/31/02 | <u>6,650</u> |
| Audit staff-adjusted balance @12/31/02 | \$29,450 |
| Utility balance @12/31/02 | <u>16,202</u> |
| Audit staff-recommended adjustment | <u>\$13,248</u> |

Exception No. 4, continued

| <u>Water Accumulated Amortization of CIAC</u> | | |
|---|--------------|-----------------------|
| Order No. PSC-92-0190 acc. amtz.-CIAC balance @12-31-90 | \$794 | |
| Amortization on per Order CIAC balance from 1/01/91 through 12/31/02 | 3,794 | |
| Amortization on CIAC additions acquired from 1/01/91 through 12/31/02 | <u>184</u> | |
| Audit staff-adjusted balance @ 12/31/02 | \$4,772 | |
| Utility balance @12/31/02 | <u>2,923</u> | |
| Audit staff-recommended adjustment | | <u><u>\$1,849</u></u> |

| <u>Wastewater Accumulated Amortization of CIAC</u> | | |
|---|--------------|-----------------------|
| Order No. PSC-92-0190 acc. amtz.-CIAC balance @12-31-90 | \$1,865 | |
| Amortization on per Order CIAC balance from 1/01/91 through 12/31/02 | 8,482 | |
| Amortization on CIAC additions acquired from 1/01/91 through 12/31/02 | <u>378</u> | |
| Audit staff-adjusted balance @ 12/31/02 | \$10,725 | |
| Utility balance @12/31/02 | <u>6,309</u> | |
| Audit staff-recommended adjustment | | <u><u>\$4,416</u></u> |

Exception No. 5

Subject: Customer Underbilling

Statement of Fact: Springside at Manatee, Ltd. is billing a water base facility rate of \$7.63 per customer as opposed to the tariff rate of \$7.68.

Recommendation: Based on 65 customers as of December 31, 2002, the effect of the annualized underbilling would be \$39.00 ($65 * .05 * 12$).

The audit staff recommends that the utility bill its customers in accordance with its tariff.

EXHIBIT I

**SPRINGSIDE AT MANATEE LTD.
WATER RATE BASE
DOCKET NO. 030407-WS
AS OF DECEMBER 31, 2002**

| DESCRIPTION | PER UTILITY | AUDIT EXCEPTION | REFER TO | PER AUDIT |
|--|----------------|--------------------|-------------|--------------|
| UTILITY PLANT-IN-SERVICE | \$92,545 | \$3,002 | AE 2 | \$95,547 |
| LAND | \$1,522 | \$0 | | \$1,522 |
| ACCUMULATED DEPRECIATION | (\$34,785) | (\$17,729) | AE 3 | (\$52,514) |
| CONTRIBUTIONS-IN-AID- OF- CONSTRUCTION (CIAC) | (\$8,669) | (\$4,706) | AE 4 | (\$13,375) |
| ACCUMULATED AMORTIZATION OF CIAC | \$2,923 | \$1,849 | AE 4 | \$4,772 |
| TOTAL | \$53,536 | (\$17,584) | | \$35,952 |

EXHIBIT II**SPRINGSIDE AT MANATEE LTD.
WASTEWATER RATE BASE
DOCKET NO. 030407-WS
AS OF DECEMBER 31, 2002**

| DESCRIPTION | PER UTILITY | AUDIT EXCEPTION | REFER TO | PER AUDIT |
|--|----------------|--------------------|-------------|--------------|
| UTILITY PLANT-IN-SERVICE | \$197,801 | (\$3,410) | AE 2 | \$194,391 |
| LAND | \$5,422 | \$0 | | \$5,422 |
| ACCUMULATED DEPRECIATION | (\$94,968) | (\$35,894) | AE 3 | (\$130,862) |
| CONTRIBUTIONS-IN-AID- OF- CONSTRUCTION (CIAC) | (\$16,202) | (\$13,248) | AE 4 | (\$29,450) |
| ACCUMULATED AMORTIZATION OF CIAC | \$6,309 | \$4,416 | AE 4 | \$10,725 |
| TOTAL | \$98,362 | (\$48,136) | | \$50,226 |