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DATE: July 27, 2004

TO: Stephanie Clapp, Division of Economic Regulation

FROM: Denise N. Vandiver, Chief, Bureau of Auditing *W*
Division of Regulatory Compliance and Consumer Assistance

RE: **Docket No.** 040276-WU ; **Company Name:** Brendenwood Water System, Inc.; **Audit Purpose:** Establish Rate Base at Transfer of Utility;
Audit Control No. 04-105-3-1

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 Compliance and Consumer Assistance (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 REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING*

Orlando District Office

BRENDENWOOD WATER SYSTEM, INC.

ESTABLISH RATE BASE AT TRANSFER

AS OF MARCH 1, 2004

**DOCKET NO. 040276-WU
AUDIT CONTROL NO. 04-105-3-1**

A handwritten signature in black ink, appearing to read "Charleston J. Winston".

Charleston J. Winston, Audit Manager

A handwritten signature in black ink, appearing to read "Richard F. Brown".

Richard F. Brown, Regulatory Analyst II

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**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
AUDITOR'S REPORT**

July 8, 2004

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedule of Rate Base as of March 1, 2004, for Brendenwood Water System, Inc. The attached schedule was prepared by the audit staff as part of our work in Docket No. 040276-WU.

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 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:

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

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.

RATE BASE: Reconciled rate base as of June 30, 1999, to Commission Order No. PSC-00-0807-PAA-WU, issued April 25, 2000. Compiled and verified all plant additions. Compiled and scanned the utility's record for CIAC additions. Tested additions to accumulated depreciation and accumulated amortization for proper rates and calculations.

OTHER: Toured the water plant and facilities. Recalculated a sample of customer bills from the utility's billing register and agreed to the Commission-approved tariff. Verified the Regulatory Assessment Fee returns for 2003 and 2002.

Exception No. 1

Subject: Accumulated Depreciation and Accumulated Amortization of CIAC

Statement of Fact: Per the utility's general ledger as of March 1, 2004, the amount of accumulated depreciation was \$2,293. The amount of accumulated amortization of CIAC was \$809.

Recommendation: The above amounts are the same amounts shown in the general ledger as of December 31, 2003. The utility did not update the above amounts as of March 1, 2004, the date of the transfer.

The audit staff determined the accumulated depreciation to be \$2,370 and accumulated amortization of CIAC to be \$816 as of March 1, 2004. Accumulated depreciation should be increased by \$77 and accumulated amortization of CIAC should be increased by \$7.

Disclosure No. 1

Subject: Land

Statement of Fact: On March 24, 1980, the partners purchased 14 acres of land for development. The cost of the land was \$44,000. On June 25, 1980, the site was platted. Tract A of this development was established as the water utility site consisting of .35 acres.

On June 1, 1988, the owner of the utility bought the utility from his partners for \$11,000.

Per Commission Order PSC-00-0807-PAA-WU, issued April 25, 2000, the land was included in rate base as zero since the utility was leasing the land from the owner of the utility.

On October 16, 2002, the land of the utility was transferred from the owner to the utility for \$1,100.

Recommendation: The land value at the time it was platted and dedicated to public service was \$1,100 ($\$44,000 / 14 = \$3,143 \times .35$).

EXHIBIT

**BRENDENWOOD WATER SYSTEM, INC.
WATER RATE BASE
DOCKET NO. 040276-WU
AS OF MARCH 1, 2004**

DESCRIPTION	PER UTILITY	AUDIT EXCEPTION	REFER TO	PER AUDIT
UTILITY PLANT-IN-SERVICE	\$9,222	\$0		\$9,222
LAND	1,100	0		1,100
ACCUMULATED DEPRECIATION	(2,293)	77	E2	(2,370)
CONTRIBUTIONS-IN-AID-OF- CONSTRUCTION (CIAC)	(1,577)	0		(1,577)
ACCUMULATED AMORTIZATION OF CIAC	809	7	E2	816
TOTAL	\$7,261	\$84		\$6,091