

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 7, 2005
TO: Cheryl Johnson, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief, Bureau of Auditing *W*
Division of Regulatory Compliance and Consumer Assistance
RE: **Docket No.:** 041096-WS; **Company Name:** Buffalo Bluff Utilities, Inc.;
Audit Purpose: establish rate base at time of transfer;
Audit Control No.: 04-296-3-1

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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DOCUMENT NUMBER-DATE

02318 MAR-8 2005

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY COMPLIANCE and CONSUMER ASSISTANCE
BUREAU OF AUDITING*

Tallahassee District Office

BUFFALO BLUFF UTILITIES, INC.

RATE BASE AUDIT

HISTORICAL YEAR ENDED DECEMBER 31, 2004

**DOCKET NO. 041096-WS
AUDIT CONTROL NO. 04-296-3-1**

Linda S. Jackson

Linda S. Jackson, Audit Manager

Denise Vandiver

Denise Vandiver, Audit Supervisor

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

February 28, 2005

**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 for the historical 12-month period ended December 31, 2004, for Buffalo Bluff Utilities, Inc. The attached schedules were prepared by the auditor as part of our work in Docket No. 04-296-3-1-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

Our audit was performed by examining 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 compared to substantiating documentation.

Assembled - Presented in Commission-required format financial information that was provided to audit staff and is the representation of utility management.

RATE BASE: Scanned 2000 through 2004 Annual Reports and Depreciation Schedule for plant, accumulated depreciation, CIAC, and CIAC amortization. Identified and established the original cost for the land that is occupied by the water and wastewater systems.

OTHER: Scanned the utility's 2000 through 2004 Regulatory Assessment Fee returns filed with the Commission.

Audit Exception No. 1

Subject: Utility Plant in Service

Statement of Facts: In 2003, the utility recorded \$366.54 in Account No. 334 (meters). The item was for a Blower. In 2004, the utility added plant of \$1,050, but did not record it on the asset listing. It is reflected in the Annual Report.

Recommendation: This item should have been recorded in Account No. 380 (Treatment and Disposal Equipment - Blowers). The adjustment to Plant is shown below. The impact on Accumulated Depreciation is minimal and audit staff made no adjustment.

Water Plant Account 334	(\$366.54)
Wastewater Plant Account 380	\$1,416.54

Audit Exception No. 2

Subject: Contributions-In-Aid-of-Construction (CIAC)

Statement of Facts: In 1992, the owners of Buffalo Bluff Utilities, Inc. were granted Water Certificate No. 542-W and Wastewater Certificate No. 470-S to operate the existing water and wastewater system at Bayou Club in Order No. PSC-92-0330-FOF-WS, issued May 11, 1992.

In the above Order, the Commission established residential connection fees of \$400 per unit for water and \$400 per unit for wastewater. The Order required that connection fees be considered as contributed assets for the purpose of any future rate base calculations.

Order No. PSC-00-2500-PAA-WS issued December 12, 2000 established residential water connection fees as \$545 plus \$110 meter installation fee, total \$655. Residential wastewater fee of \$935.

The company asset listing as of December 31, 2004 indicates CIAC of \$24,000 for water and \$24,000 for wastewater. The company responded that it had connected an additional customer in 2004. This customer paid the tariff connection charges. These charges were not recorded on the asset listing.

Recommendation: The CIAC should be increased by \$655 for water and \$935 for wastewater.

Audit Exception No. 3

Subject: Accumulated Amortization of CIAC

Statement of Facts: The company asset listing as of December 31, 2004 indicates Accumulated Amortization of \$21,967 for water and \$21,589 for wastewater. Order No. PSC-00-2500-PAA-WS issued December 12, 2000 amortized CIAC using a composite depreciation rate. The company was not consistent in how it amortized CIAC.

Recommendation: Staff identified a 27 year amortization period that the company indicated on its asset listing. This calculates to an amortization rate of 3.7%. Using this rate, we recalculated accumulated amortization to be \$16,203 for water and \$16,730 for wastewater. We recommend that the company balances be adjusted to these numbers.

Audit Disclosure No. 1

Subject: Annual Report

Statement of Facts: The Company asset listing appears to be the official company records. Staff used this document as the source for company balances. The Annual Report does not agree with the Asset Listing. Audit adjustments were made reflecting the balances on the Asset listing rather than the Annual Report. The chart below indicates these differences.

Recommendation: This disclosure is provided for information purposes.

Water	Asset Listing	Staff Calculation	Annual Report
Utility Plant	\$85,074	\$84,707	\$84,707
Accumulated Depreciation	\$58,213	\$58,213	\$58,106
CIAC	\$24,000	\$24,655	\$24,000
Amortization of CIAC	\$21,967	\$16,203	\$19,907

Wastewater	Asset Listing	Staff Calculation	Annual Report
Utility Plant	\$134,858	\$136,275	\$136,275
Accumulated Depreciation	\$94,229	\$94,229	\$94,142
CIAC	\$24,000	\$24,935	\$24,000
Amortization of CIAC	\$21,589	\$16,730	\$19,689

EXHIBITS

BUFFALO BLUFF UTILITIES, INC

SCHEDULE NO. 1

DOCKET NO. 041096-WS
 SCHEDULE OF WATER RATE BASE
 FOR PERIOD ENDED 12/31/2004

DESCRIPTION	BALANCE PER UTILITY	AUDIT ADJUSTMENTS	BALANCE PER COMMISSION
UTILITY PLANT IN SERVICE	\$83,971	(\$367)	\$83,604
LAND & LAND RIGHTS	\$1,103	\$0	\$1,103
CIAC	(\$24,000)	(\$655)	(\$24,655)
ACCUMULATED DEPRECIATION	(\$58,213)	\$0	(\$58,213)
AMORTIZATION OF CIAC	\$21,967	(\$5,764)	\$16,203
WATER RATE BASE	\$24,828	(\$6,786)	\$18,042

BUFFALO BLUFF UTILITIES, INC.

SCHEDULE NO. 2

DOCKET NO. 041096-WS
SCHEDULE OF WASTEWATER RATE BASE
FOR PERIOD ENDED 12/31/2004

DESCRIPTION	BALANCE PER UTILITY	AUDIT ADJUSTMENTS	BALANCE PER COMMISSION
UTILITY PLANT IN SERVICE	\$125,020	\$1,417	\$126,437
LAND & LAND RIGHTS	\$9,838	\$0	\$9,838
CIAC	(\$24,000)	(\$935)	(\$24,935)
ACCUMULATED DEPRECIATION	(\$94,142)	\$0	(\$94,142)
AMORTIZATION OF CIAC	\$21,589	(\$4,859)	\$16,730
WATER RATE BASE	\$38,305	(\$4,377)	\$33,928