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Public Service Commission

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COMMISSION CLERK

DATE: September 18, 2006

TO: Shannon J. Hudson, Regulatory Analyst IV, Division of Economic Regulation

FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance

RE: **Docket No.** 060406-SU **Company Name:** Crooked Lake Park Sewerage Company in Polk County; **Audit Purpose:** Staff Assisted Rate Case
Audit Control No: 06-181-2-1

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 Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV:sbj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of Commission Clerk & Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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DOCUMENT NUMBER-DATE

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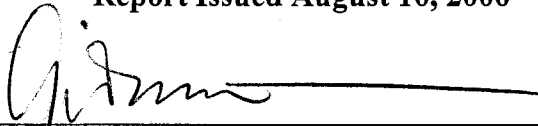


FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING

Tampa District Office

CROOKED LAKE PARK SEWERAGE COMPANY
STAFF ASSISTED RATE CASE
HISTORICAL YEAR ENDED DECEMBER 31, 2005


DOCKET NO. 060406-SU
AUDIT CONTROL NO. 06-181-2-1
Report Issued August 10, 2006



Simon O. Ojada, Audit Manager



Tomer Kopelovich, Audit Staff



Joseph W. Rohrbacher, District Audit Supervisor

DOCUMENT NUMBER-DATE

08629 SEP 19 03

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TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE	1
II. OBJECTIVES AND PROCEDURES.....	2
III. AUDIT FINDINGS	
1. PLANT ADDITIONS AND RETIREMENT	6
2. ACCUMULATED DEPRECIATION /EXPENSE	8
3. AMORTIZATION OF CIAC.....	9
4. REVENUES	10
5. OPERATION AND MAINTENANCE	11
6. TAXES OTHER THAN INCOME.....	12
IV. EXHIBITS	
1. RATE BASE	13
2. NET OPERATING INCOME.....	14
3. CAPITAL STRUCTURE.....	15

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

AUGUST 10, 2006

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by the audit staff in support of Crooked Lake Park Sewerage Company's Staff Assisted Rate Case in Docket No. 060406-SU.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES AND PROCEDURES

RATE BASE:

Utility-Plant-in-Service (UPIS)

Objective: To determine that property exists and is owned by the utility. To determine that additions are authentic, recorded at original cost, and properly classified as a capital item in compliance with Commission Rules and Uniform System of Accounts. To verify that the proper retirements were made when a replacement item was put in service. To determine that the land is owned by the utility and included in rate base at original cost.

Procedures: We tested all major plant additions and retirements for the period August 1, 1998 through December 31, 2005 for compliance with the objectives stated above. We prepared a schedule of UPIS, by account, from the last order with year to year additions and retirements. We verified that there have been no changes to utility land since its last rate proceeding.

Contributions-in-Aid-of-Construction (CIAC)

Objective: To test CIAC additions and adjustments since July 31, 1998. To verify that CIAC additions are reflective of the utility's Commission approved service availability tariff.

Procedures: We verified 100% of all CIAC additions for the period August 1, 1998 through December 31, 2005 for compliance with the objectives stated above. We scanned the utility's cash receipts records and its 1998-2005 Federal Income Tax returns for unrecorded cash and property and determined that all CIAC were properly recorded in the utility's books.

Accumulated Depreciation

Objective: To verify that accumulated depreciation and depreciation expense are calculated using the Commission authorized rates and that the calculations are correct.

Procedures: We tested annual accruals to accumulated depreciation based on adjusted plant, using last authorized rates up to the beginning of the test year and rates prescribed by Rule 25-30.140, F.A.C. for the test year. We verified that the utility used Commission authorized rates to depreciate its UPIS accounts. We prepared a schedule of accumulated depreciation balances by plant account from the last order with year to year additions and retirements using FPSC approved rates and compared same to company figures. We verified that in 2005, the utility did not properly record retirements to accumulated depreciation when the corresponding UPIS was removed or replaced. Audit Finding No. 2 addresses the adjustments to the accumulated depreciation balances.

Accumulated Amortization of CIAC

Objective: To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules. To verify that CIAC amortization expense accruals are properly recorded and calculated by applying annual depreciation composite rates.

Procedures: We verified that the utility used Commission authorized rates to amortize its CIAC plant accounts. We recalculated accumulated amortization of CIAC account balances for the test period applying annual composite depreciation rates. However, the accumulated amortization of CIAC is overstated because the utility used a 15 year life in amortization of cash contributions. Audit Finding No. 3 addresses the adjustment.

Working Capital

Objective: To determine the working capital allowance.

Procedures: We determined the working capital allowance by using 1/8 of operating and maintenance expenses methodology.

REVENUES AND EXPENSES

Revenues

Objectives: To verify that revenues earned during the test year are properly recorded. To perform billing analysis for the test year.

Procedures: We tested revenue transactions with tariffed rate and performed a simple calculation estimation to determine what test year revenues should be. Audit Finding No. 4 states that revenues are understated because the utility did not use the accrual basis of accounting to record revenues. We compiled revenues following a billing report summary on a monthly basis. We prepared a billing analysis schedule.

Expenses

Objectives: Sample test year operation and maintenance expense accounts. Examine the expense for the proper period, amount, classification, support documentation and whether non-utility related, non-recurring, unreasonable or imprudent.

Procedures: We judgmentally selected accounts from the general ledger for testing. We reviewed the accounts for proper amount, classification and period. We examined invoices and supporting documentation to determine if the above objectives were met. We examined and listed all miscellaneous expenses. Included in the expense amount were invoices for items that should have been capitalized. Audit Finding No. 5 addresses the adjustments.

Objectives: Review the prudence of any allocation methodology for O & M expenses used by the utility. Determine whether the original amounts to be allocated and the methodology are reasonable.

Procedures: The utility did not have any allocated expenses. All expenses were directly related.

Objectives: To obtain a schedule of contracted services for the test year that separates engineering, accounting, legal, billing, testing, operating, and management. Test documentation for amounts paid, period of service, and that the service was related to utility operations.

Procedures: We prepared a schedule of all contractual services for the test year. We reviewed those accounts for proper amount, classification, and whether non-utility related, non-recurring, unreasonable or imprudent. We examined invoices and supporting documentation to determine if the above objectives were met.

Objectives: To provide the number of hours per month that employees and/or contracted vendors spend on operating, billing, testing, maintenance, and general management activities.

Procedures: We obtained and reviewed documents that provided information as mentioned above.

Objectives: To note expense areas where the utility has no costs assigned, but where benefits to utility are evident.

Procedures: We found that the utility did not assign cost to the office it uses for doing business. The utility uses approximately 50 percent of the owner's office for the utility business. Audit Finding No. 5 also addresses rent expense which was not included in the general ledger and annual filing.

Objectives: To note all related party relationships and transactions.

Procedures: We did not note any related party transactions.

Objectives: To review Taxes other Than Income.

Procedures: We obtained the 2005 regulatory assessment fee (RAF) filing and reconciled it to the general ledger. We obtained and reviewed the property tax bills to determine if the amount booked reflects the discounted amount. The utility improperly recorded regulatory assessment fees by understating its revenues on the RAF form. Real Estate & Personal Property Taxes payments were not made on time to utilize the discount offered. Audit Finding No. 6 addresses the adjustments.

CAPITAL STRUCTURE

Objective: To determine that capital structure represents utility debt, capital stock, retained earnings, deferred taxes, customer deposits and other funds available for investment in utility plant and operations.

Procedures: We examined capital structure components to assure that they represent utility debt, capital stock, retained earnings and customer deposits. We reviewed long-term debt balances to the original documents and verified the terms and interest rate of each note payable.

AUDIT FINDING NO. 1

SUMMARY: The company did not properly record the retirement of plant in service and the purchase of a new truck in 2005. This could cause plant in service to be overstated by \$739 and accumulated depreciation to be overstated in the amount of \$4,226.

STATEMENT OF FACT: The Commission set rate base for the utility, after a staff assisted rate case, with Order No. PSC-99-2116-PAA-SU, issued October 25, 1999. The utility made all the adjustments as prescribed by the PSC order.

In July 2005, Crooked Lake Park Sewerage Company traded in its 2001 Ford F150 for a 2005 Ford F150. However, the utility made incorrect entries in its books to record the new truck and to retire the old truck. Below is the trade in and purchase transaction.

TRADE IN GROSS ALLOWANCE	11,400.00
AMOUNT OWING -paid by dealer	<u>(8,753.17)</u>
Difference	2,646.83
NEW TRUCK PRICE	27,092.08
LESS: TRADE IN ALLOWANCE	(2,646.83)
LESS: REBATE	(800.00)
LESS: CASH	<u>(266.92)</u>
Sub total	23,378.33
ADD: DOCUMENTARY STAMPS	86.80
ADD: SERVICE CONTRACT	1,170.00
ADD: TAX ON SERVICE CONTRACT	81.90
AMOUNT FINANCED	<u><u>24,717.03</u></u>

The utility made the following entries to record the above transaction in its books:

224.15	Ford Credit Payable	8,591	
108	Accumulated Depreciation	15,464	
391	Transportation Equipment	25,723	
224.15	Ford Credit Payable		24,717
391	Transportation Equipment		24,956
427	Interest Expense		105

The utility should have made the following entries:

224.15	Ford Credit Payable	8,753	
108	Accumulated Depreciation	16,203	
391	Transportation & Equip		24,956
	To retire old truck		
391	Transportation Equipment	24,984	
131	Cash		267
224.15	Notes Payable		24,717
	To record purchase of the new truck		

The difference between the utility's amount and the auditor's amount is \$739 (\$25,723-\$24,984).

Also, the company retired pumps totaling \$5,915 and made the following entries:

108	Accumulated Depreciation	2,428	
775	(Gain)/ Loss on Asset Disposal	3,487	
389	Other Plant & Misc Equip		5,915
	To retire old pumps		

The correct entry should have been the following:

Accumulated Depreciation	\$ 5,915	
Other Plant & Misc. Equip		\$ 5,915

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

Accumulated Depreciation	\$ 4,226	
Gain/Loss on Asset Disposal		\$ 3,487
Transportation Equipment		739
Notes Payable	\$ 162	
Interest Expense	\$ 105	
Cash		\$ 267

EFFECT ON RATE CASE IF FINDING IS ACCEPTED

Total Plant In Service Per General Ledger	\$379,876
Add: Amount per Audit Finding No. 1	739
Add: Amount per Audit Finding No. 5	<u>31,615</u>
Total Plant In Service per Audit	<u>\$410,143</u>

AUDIT FINDING NO. 2

AUDIT FINDING NO. 2

SUMMARY: Crooked Lake Park Sewerage Company used guideline rates as required by Rule 25-30.140, Florida Administrative Code. The utility recorded a total accumulated depreciation of \$215,026 as of December 31, 2005. However, total accumulated depreciation is understated by \$4,194 while depreciation expense is understated by \$813 for the test period. The \$813 is due to expenses that should have been capitalized.

STATEMENT OF FACT: Crooked Lake Park Sewerage company did not record depreciation for the 5 months ending December 31, 1998. Also, in the years 2000 and 2001, the utility did not use the half year convention in its depreciation when new plant items were placed in service which resulted to lower depreciation taken by the utility. The auditor started with balances from the last rate case to arrive at a total accumulated depreciation of \$214,994 as of December 31, 2005. Below is the utility's depreciation expense for the period August 1, 1998 through December 31, 2005 compared to the auditors computed depreciation:

	Depreciation Per Books	Depreciation Per Audit	Difference
1998	164	2,166	(2,002)
1999	4,946	4,933	13
2000	6,334	7,001	(667)
2001	9,920	11,121	(1,201)
2002	13,414	13,263	151
2003	13,363	13,206	157
2004	13,349	13,181	168
2005	13,758	14,571	(813)
	<u>75,248</u>	<u>79,442</u>	<u>(4,194)</u>

The net difference between the utility accumulated depreciation and the auditors figure is \$32 (\$215,026 - \$214,994). The difference is immaterial; therefore, no adjustment is required.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

Depreciation Expense	\$ 813	
Retained Earnings	\$3,381	
Accumulated Depreciation		\$ 4,194

EFFECT ON RATE CASE IF FINDING IS ACCEPTED

Depreciation Expense would increase by \$813 for a total of \$14,571.

Audit Finding No. 2 (Accum. Deprec.)	\$4,226	
Audit Finding No. 1 (Accum. Deprec.)		\$4,194
Difference		\$ 32

AUDIT FINDING NO. 3

SUMMARY: Accumulated amortization of CIAC is overstated by \$6,336 and the test year amortization expense is overstated by \$679.

STATEMENT OF FACT: Crooked Lake Park Sewerage Company prepared a schedule of amortization of Contribution In Aid of Construction (CIAC). However, the company used a 15 year life for the amortization of cash contributions received resulting in an overstatement of accumulated amortization of CIAC of \$6,336 and test year amortization expense of \$679. Auditors used depreciation composite rates.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

Accumulated Amortization of CIAC	\$6,336	
Retained Earnings		\$6,336

EFFECT ON RATE CASE IF FINDING IS ACCEPTED

Accumulated Amortization of CIAC	\$6,336	
Retained Earnings		\$6,336

The test year amortization of CIAC would decrease by \$679.

AUDIT FINDING NO. 4

SUMMARY: Utility understated its revenues by \$2,840. The utility recorded its revenues on a cash basis.

STATEMENT OF FACT: The utility's general ledger reflects wastewater revenues of \$104,313 for the 12-month period ended December 31, 2005. The utility recorded its revenues on a cash basis. According to the Uniform System of Accounts, Accounting Instruction 2, states that the books of accounts of all water and wastewater utilities are to be kept by the double entry method, on an accrual basis.

The increase of \$2,840 in revenues will require a corresponding increase of \$128 (\$2,840 x 4.5%) in regulatory assessment fees plus interest and penalty.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings	2,840	
521.1	Residential Revenues		2,840

EFFECT ON THE RATE CASE IF FINDING IS ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings	2,840	
521.1	Residential Revenues		2,840

AUDIT FINDING NO. 5

SUMMARY: The utility operation and maintenance expense is overstated by \$25,266. The utility understated Purchased Power account by \$2,149 and improperly included costs in the amount of \$31,615 that should have been capitalized. Also, the utility did not include the cost of renting office space in the amount of \$4,200 for a net effect of \$25,266.

- Acct. No. 715 – Purchased Power should be increased by \$2,149.
- Acct. No. 736 – Contractual Services Other for \$31,615 should be removed.
- Acct. No. 740 – Rents – Office Rent for \$4,200 should be added.

STATEMENT OF FACT: The utility's books reflect wastewater operation & maintenance expense of \$149,270 for the 12-month period ended December 31, 2005. Included in the expense amount were invoices totaling \$31,615 for items that should have been capitalized. This amount should be reclassified to Acct. No. 361. Purchased Power was understated by \$2,149. Also, operation and maintenance did not include rent in the amount of \$4,200 for the test period.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
361	Collection Sewers – Gravity	31,615	
736	Contractual Services – Other		31,615
215	Purchased Power	2,149	
715	Retained Earnings		2,149
740	Rents	4,200	
233	Account Payable		4,200

EFFECT ON THE RATE CASE IF FINDING IS ACCEPTED:

<u>Acct. No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
361	Collection Sewers – Gravity	31,615	
736	Contractual Services – Other		31,615
215	Purchased Power	2,149	
715	Retained Earnings		2,149
740	Rents	4,200	
233	Account Payable		4,200

AUDIT FINDING NO. 6

SUMMARY: The utility's Taxes-Other-Than-Income is overstated by \$65. The utility under stated its regulatory assessment fee by \$128 and overstated its real estate taxes and tangible taxes by \$17 and \$176 respectively.

STATEMENT OF FACT: The utility's general ledger reflects Taxes-Other-Than-Income of \$7,735 for the 12-month period ended December 31, 2005. The utility's real estate and personal property taxes are overstated by \$193 because it did not take advantage of the available discount. Also, the utility understated its regulatory assessment fee by \$128, as per Audit Finding No. 4, resulting in a net decrease of Taxes Other Than Income of \$65.

<u>Description</u>	<u>Amount</u>
Regulatory Assessment Fee	\$4,694
Real Estate Taxes	242
Licenses & Fees	241
Tangible Taxes	<u>2,558</u>
Total	<u>7,735</u>

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

<u>Acct.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings	65	
408	Taxes-Other-Than-Income		65

EFFECT ON THE FILING IF FINDING IS ACCEPTED:

<u>Acct.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings	65	
408	Taxes-Other-Than-Income		65

The total for Taxes Other Than Income would be \$7,670.

**CROOKED LAKE PARK SEWERAGE CO.
 RATE BASE - WASTEWATER
 AS OF DECEMBER 31, 2005
 DOCKET NO. 060406-SU**

EXHIBIT I

(a) DESCRIPTION	(b) PER BOOKS 12/31/2005	(c) AUDIT FINDING	(d) REFER TO FINDING	(e) PER AUDIT 12/31/2005
UTILITY PLANT IN SERVICE	379,267	31,615 (739)	5 1	410,143
LAND	6,197	0		6,197
PLANT HELD FOR FUTURE USE	0	0		0
CIAC	(126,736)	0		(126,736)
AMORTIZATION OF CIAC	109,872	(6,336)	3	103,536
ACCUMULATED DEPRECIATION	(215,026)	0	1, 2	(215,026)
WORKING CAPITAL	0	15,501		15,501
TOTAL	153,574	40,040		193,614

- (1) Working Capital Formula: 1/8 Operating and Maintenance Expense.
 (2) All amounts rounded to the nearest whole dollar.

**CROOKED LAKE PARK SEWERAGE CO.
NET OPERATING INCOME
AS OF DECEMBER 31, 2005
DOCKET NO. 060406-SU**

EXHIBIT II

<u>DESCRIPTION</u>	(1) TEST YR PER <u>BOOKS</u>	(2) AUDIT <u>ADJUSTMENT</u>	(3) AUDITED <u>BALANCE</u>
OPERATING REVENUES	\$104,313	2,840.00	\$107,153
OPERATING EXPENSES:			
OPERATION AND MAINTENANCE	149,270	(25,266)	124,004
DEPRECIATION	13,758	813	14,571
AMORTIZATION	3,834	(679)	3,155
TAXES OTHER THAN INCOME	7,735	(65)	7,670
INCOME TAXES	0	0	0
TOTAL OPERATING EXPENSES	<hr/> 174,597	(25,197)	149,400
NET OPERATING INCOME/LOSS	(70,284)	28,037	(42,247)

CROOKED LAKE PARK SEWERAGE COMPANY
 CAPITAL STRUCTURE
 AS OF DECEMBER 31, 2005
 DOCKET 060406-SU

EXHIBIT III

DESCRIPTION	(a) BALANCE PER T/B @12/31/04	(b) BALANCE PER T/B @12/31/05	(c) SIMPLE AVERAGE PER T/B	(d) AUDIT ADJUST- MENTS	(e) BALANCE PER AUDIT @12/31/05	(f) SIMPLE AVERAGE PER AUDIT	(g) RATIO	(h) COST RATE	(i) WEIGHTED COST OF CAPITAL
COMMON EQUITY (1)	3,049	(70,117)	(33,534)	0	0	1,525	0.86%	11.54%	0.10%
COMMON STOCK	3,000	3,000	3,000		3,000	3,000			
RETAINED EARNINGS	(76,021)	(149,187)	(112,604)		(149,187)	(112,604)			
PD IN CAPITAL	76,070	76,070	76,070	0	76,070	76,070			
L/T DEBT- K. Knowlton	9,105	79,281	44,193	0	79,281	44,193	24.92%	5.76%	1.44%
L/T DEBT- American Bank	63,398	51,164	57,281	0	51,164	57,281	32.30%	10.00%	3.23%
L/T DEBT- Am South Bank	61,533	53,218	57,376	0	53,218	57,376	32.35%	8.75%	2.83%
L/T DEBT- Ford Credit	11,168	22,817	16,993	0	22,817	16,993	9.58%	2.90%	0.28%
CUSTOMER DEPOSITS	0	0	0		0	0	0.00%	6.00%	0.00%
OTHER	0	0	0		0	0	0.00%	0.00%	0.00%
TOTAL	148,253	136,363	142,308	0	206,480	177,367	100.00%		7.87%

(1) Equity cost based on FPSC Order No. 06-0476-PAA-WS issued 6/5/06.

(2) Auditors used zero balance due to a negative equity.