

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:** December 17, 2009  
**TO:** Shannon Hudson, Regulatory Analyst IV, Division of Economic Regulation  
**FROM:** Dale N. Mailhot, Director, Office of Auditing and Performance Analysis *DM*  
**RE:** Docket No.: 090447-WS  
Company Name: CWS Communities d/b/a Palm Valley Utilities  
Company Code: WS832  
Audit Purpose: Staff Assisted Rate Case  
Audit Control No: 09-299-1-1

---

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 a response to the Office of Commission Clerk. There are no confidential work papers associated with this audit.

DNM/ip  
Attachment: Audit Report

cc: (With Attachment)  
Office of Auditing and Performance Analysis (Mailhot, File Folder)  
Office of Commission Clerk  
Office of the General Counsel

(Without Attachment)  
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

RECEIVED-FPSC  
09 DEC 18 PM 3: 21  
COMMISSION  
CLERK

DOCUMENT NUMBER-DATE

12082 DEC 18 8

FPSC-COMMISSION CLERK

STATE OF FLORIDA



**FLORIDA PUBLIC SERVICE COMMISSION**  
**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS**  
**BUREAU OF AUDITING**

**Tallahassee District Office**

**CWS COMMUNITIES LP dba PALM VALLEY UTILITIES**

**STAFF ASSISTED RATE CASE**

**TEST YEAR ENDED SEPTEMBER 30, 2009**

**DOCKET NO. 090447-WS**  
**AUDIT CONTROL NO. 09-299-1-1**

Handwritten signature of Debra M. Dobiac in black ink.

**Debra M. Dobiac, Audit Manager**

Handwritten signature of Hymavathi Vedula in black ink.

**Hymavathi Vedula, Audit Staff**

Handwritten signature of Donna D. Brown in black ink.

**Donna D. Brown, Audit Staff**

Handwritten signature of Lynn M. Deamer in black ink.

**Lynn M. Deamer, District Audit Supervisor**

DOCUMENT NUMBER-DATE

12082 DEC 18 8

FPSC-COMMISSION CLERK

# TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE.....	1
II. OBJECTIVES AND PROCEDURES .....	2
III. AUDIT FINDINGS .....	6
1. BOOKS AND RECORDS.....	6
2. UTILITY PLANT IN SERVICE, ACCUMULATED DEPRECIATION, AND DEPRECIATION EXPENSE.....	7
3. CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC), ACCUMULATED AMORTIZATION OF CIAC, AND AMORTIZATION EXPENSE.....	11
4. WATER REVENUE – COUNTY TAX.....	12
5. WASTEWATER REVENUE .....	13
6. WATER OPERATION AND MAINTENANCE EXPENSES .....	14
7. WASTEWATER OPERATION AND MAINTENANCE EXPENSES.....	16
8. TAXES OTHER THAN INCOME .....	18
9. REAL ESTATE PROPERTY TAXES .....	20
IV. EXHIBITS .....	21
1. WATER RATE BASE.....	21
2. WASTERWATER RATE BASE .....	22
3. WATER NET OPERATING INCOME.....	23
4. WASTEWATER NET OPERATING INCOME.....	24
5. CAPITAL STRUCTURE.....	25

DOCUMENT NUMBER: DATE

12082 DEC 18 8

FPSC-COMMISSION CLERK

**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
AUDITOR'S REPORT**

**December 14, 2009**

**TO: FLORIDA PUBLIC SERVICE COMMISSION**

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated October 21, 2009. We have applied these procedures to prepare the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure as of September 30, 2009 for CWS Communities LP dba Palm Valley Utilities. The attached schedules were prepared by the audit staff as part of our work in Docket No. 090447-WS.

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

DOCUMENT NUMBER-DATE

12082 DEC 18 8

FPSC-COMMISSION CLERK

## **II. OBJECTIVES AND PROCEDURES**

### **GENERAL**

#### Utility Books and Records

*Objective:* To determine that the utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USoA).

*Procedures:* The audit staff reviewed the utility's accounting system and found it to be not in compliance with the NARUC USoA. Audit Finding No. 1 discusses our findings.

### **RATE BASE**

#### Utility Plant in Service (UPIS)

*Objectives:* To determine that property exists and is owned by the utility. To determine that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC USoA. To verify that proper retirements of UPIS were made when a replacement item was put into service.

*Procedures:* We reconciled the beginning plant in service balance to the prior staff-assisted rate case, Order No. PSC-02-1111-PAA-WS from Docket No. 010823-WS, issued August 13, 2002. We tested additions and retirements from July 31, 2001 to September 30, 2009. We tested the plant in service additions for the following: date acquired, original cost, account recorded, and appropriate retirements. We tested the retirements for the following: cost retired, account number, date of retirement or disposition, amount of accumulated depreciation retired, amount of proceeds/cost of removal, and amount of gain/loss recorded in utility books after disposal. The utility was unable to fully support the plant in service additions and retirements recorded in its general ledger and plant investment schedule. Audit Finding No. 2 discusses the UPIS balances.

#### Land and Land Rights

*Objective:* To determine that utility land is recorded at original cost, is used for utility operations, and is owned or secured under a long-term lease.

*Procedures:* We determined that CWS Communities LP is the legal owner of Palm Valley Utilities and owns the utility land. We reconciled the beginning land balance to the prior staff-assisted rate case, Order No. PSC-02-1111-PAA-WS from Docket No. 010823-WS, issued August 13, 2002. We noted that there were no land additions or retirements from July 31, 2001 to September 30, 2009.

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

*Objectives:* To determine that utility CIAC balances are properly stated and are reflective of service availability charges authorized in the utility's Commission approved tariffs.

*Procedures:* We reconciled the beginning CIAC balance to the prior staff-assisted rate case, Order No. PSC-02-1111-PAA-WS from Docket No. 010823-WS, issued August 13, 2002. We

tested additions and retirements from July 31, 2001 to September 30, 2009. The audit staff read the utility's authorized tariff to determine the type and amount, if any, of service availability fees for new customer additions, and inquired if the utility had any special agreements, developer agreements, and whether or not it has received any donated property as CIAC. We were able to reconcile the CIAC additions and retirements to its plant asset schedule except for the proforma additions noted in the above mentioned order. However, we noted variances when reconciling to the utility's general ledger. Audit Finding No. 3 discusses the CIAC balances.

#### Accumulated Depreciation

*Objectives:* To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USoA. To verify that depreciation accruals are calculated using the Commission's authorized rates and that retirements are properly recorded.

*Procedures:* We reconciled the beginning accumulated depreciation balances to the prior staff-assisted rate case, Order No. PSC-02-1111-PAA-WS from Docket No. 010823-WS, issued August 13, 2002. We scheduled accumulated depreciation accruals through September 30, 2009. Our schedule includes: beginning and ending balances by UPIS sub-accounts, methodology for calculating annual accumulated depreciation accruals, service lives used to determine accrual multiplier, methodology for accounting for retirements and adjustments, and current period depreciation expense. Audit Finding No. 2 discusses the accumulated depreciation balances.

#### Accumulated Amortization of CIAC

*Objectives:* To determine that accumulated amortization of CIAC balances are properly stated and that annual accruals are reflective of the depreciation rates and are in compliance with Commission rules and orders.

*Procedures:* We reconciled the beginning accumulated amortization of CIAC balance to the prior staff-assisted rate case, Order No. PSC-02-1111-PAA-WS from Docket No. 010823-WS, issued August 13, 2002. The audit staff scheduled accumulated amortization of CIAC accruals through September 30, 2009. Our schedule includes: beginning and ending balances, methodology for calculating annual accumulated depreciation accruals, service lives used to determine accrual multiplier, methodology for accounting for retirements and adjustments, and current period amortization expense. Audit Finding No. 3 discusses the accumulated amortization of CIAC balances.

#### Working Capital

*Objective:* To determine that the utility's working capital balance is properly calculated in compliance with Commission rules.

*Procedures:* We calculated the utility's working capital balance as of September 30, 2009 using one-eighth of operation and maintenance expense pursuant to Commission Rule 25-30.433(2), Florida Administrative Code.

## **NET OPERATING INCOME**

### Revenue

*Objectives:* To determine that utility charges are those approved by the Commission in the utility's current authorized tariff for both water and wastewater. To determine that revenue earned from utility property during the test year are recorded and are properly classified in compliance with Commission rules and the NARUC USoA.

*Procedures:* The audit staff reviewed the utility's Commission approved tariffs establishing rates and compiled water and wastewater utility revenue for the 12-month period ending September 30, 2009 from the utility's billing register. We tested the reasonableness of the utility revenues by multiplying the average consumption times the number of customers in each class of service and compared it to the amount recorded by the utility. We selected a judgmental sample of customer bills, recalculated the bills using the authorized rates, and prepared a billing analysis for the test year. Audit Findings No. 4 and 5 discuss the revenue balances.

### Operation and Maintenance Expense (O&M)

*Objective:* To determine that O&M expenses are properly recorded in compliance with Commission rules, and are reasonable and prudent for ongoing utility operations.

*Procedures:* We compiled O&M expense items from the utility's general ledger. We reviewed all of the utility's invoices for proper amount, period, classification, NARUC account, and recurring nature. We reviewed the utility's methodology for proper allocation of expenses for water and wastewater operations. Audit Findings No. 6 and 7 discuss the O&M expense balances.

### Depreciation and Amortization Expense

*Objective:* To determine that depreciation is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of utility plant in service assets and the amortization of utility CIAC assets for ongoing utility operations.

*Procedures:* The audit staff reviewed the utility's books and records for depreciation and amortization expense. We calculated depreciation on plant additions and amortization on CIAC additions. Audit Findings No. 2 and 3 discuss depreciation and amortization expense.

### Taxes Other Than Income (TOTI)

*Objective:* To determine the appropriate amounts for TOTI for the test year ended September 30, 2009.

*Procedures:* We compiled TOTI expenses from the utility's general ledger. We reviewed the property tax invoices and Commission filed regulatory assessment fee forms for proper amount, period, classification, NARUC account, and recurring nature. We reviewed the utility's methodology for proper allocation of payroll expenses. Audit Finding No. 8 discusses TOTI expenses.

## **CAPITAL STRUCTURE**

### GENERAL

*Objective:* To determine that the components of the utility's capital structure and the respective cost rates used to arrive at the overall cost of capital are properly recorded in compliance with Commission rules.

*Procedures:* We reviewed the 2009 trial balance for the capital structure components of Hometown American LLC, the utility's parent company, and determined the cost of capital based on the leverage formula from Docket No. 090006-WS, FPSC Order No. PSC-09-0430-PAA-WS, issued June 19, 2009.

### **III. AUDIT FINDINGS**

#### **AUDIT FINDING NO. 1**

##### **SUBJECT: BOOKS AND RECORDS**

**AUDIT ANALYSIS:** CWS Communities LP dba Palm Valley Utilities' books and records are not maintained in accordance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USoA).

NARUC, Class C, Accounting Instructions, states:

All books of accounts, together with records and memoranda supporting entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda, and information useful in determining the facts regarding a transaction.

Commission Rule 25-30.115, Florida Administrative Code (F.A.C.), requires utilities to maintain their books and records in conformity with the NARUC USoA.

The audit staff noted that the utility did provide a reconciliation of its general ledger accounts to the NARUC USoA, and the staff assisted rate case was able to be completed. However, the supporting schedules for utility plant in service (UPIS) did not reconcile to the general ledger nor were its accounts set up to support the water and wastewater systems individually. The Commission should require the utility to maintain its books and records in compliance with the NARUC USoA, Commission orders, and Commission rules.

## AUDIT FINDING NO. 2

### SUBJECT: UTILITY PLANT IN SERVICE, ACCUMULATED DEPRECIATION, AND DEPRECIATION EXPENSE

**AUDIT ANALYSIS:** The utility recorded the following balances on its books and records as of September 30, 2009. Order No. PSC-02-1111-PAA-WS from Docket No. 010823-WS, issued August 13, 2002, established the beginning balances for rate base as of July 31, 2001. In Order No. PSC-05-0186-PAA-WS, issued February 17, 2005, rate base was established as of October 16, 2003. This was at the time of transfer of the majority organizational control from Chateau Communities, Inc. to Hometown American, L.L.C. The audit staff reviewed the supporting documentation provided by the utility from July 31, 2001 through September 30, 2009 and utilized the depreciation rates as per Commission Rule 25-30.140, Florida Administrative Code (F.A.C.) to determine the following balances.

<u>Description</u>	<u>Balance per Utility 9/30/2009</u>	<u>Audit Adjustment</u>	<u>Balance per Audit 9/30/2009</u>
<u>Water System</u>			
Plant in Service	\$ 1,264,170	\$ (12,835)	\$ 1,251,335
Accumulated Depreciation	\$ 682,897	\$ (308,408)	\$ 374,489
Depreciation Expense	\$ 57,894	\$ (11,616)	\$ 46,278
<u>Wastewater System</u>			
Plant in Service	\$ 2,810,092	\$ 243,357	\$ 3,053,449
Accumulated Depreciation	\$ 1,087,071	\$ 386,171	\$ 1,473,242
Depreciation Expense	\$ 90,890	\$ 59,341	\$ 150,231

See Schedules 1 and 2 for accumulated depreciation and depreciation details.

CWS Communities LP dba Palm Valley Utilities  
Water Plant

Account	Cost	Depreciation		Years in Service	Accumulated Depreciation	Schedule I
		Annual Rate				Current Depreciation
7/31/2001 per FPSC Order # PSC-02-1111-PAA-WS	\$ 833,645	C			\$ 229,324	
7/31/2003 Retirement per Order # PSC-02-1111-PAA-WS	(98,148)				(43,361)	
10/16/2003 Net Additions per FPSC Order # PSC-05-0186-PAA-WS	294,277				(29,605)	
					186,161	A \$ 35,562 B
<b>2004 Additions</b>						
101.304 Structures and Improvements	1,300	0.0370	5.5		264	48
101.334 Meters and Meter Installations	57,000	0.0588	5.0		16,737	3,353
	<u>58,300</u>					
<b>2005 Additions</b>						
101.320 Water Treatment Equipment	11,859	0.0588	4.0		2,796	698
101.334 Meters and Meter Installations	6,049	0.0588	4.5		1,607	356
	<u>17,908</u>					
<b>2006 Additions</b>						
101.311 Pumping Equipment	2,950	0.0588	3.0		521	174
101.334 Meters and Meter Installations	10,187	0.0588	3.5		2,080	599
101.335 Hydrants	5,618	0.0250	3.0		418	140
	<u>18,755</u>					
<b>2007 Additions</b>						
101.320 Water Treatment Equipment	2,935	0.0588	2.0		344	173
101.330 Distribution Reservoirs and Standpipes	10,000	0.0303	2.5		743	303
101.333 Services	23,400	0.0286	2.5		1,652	669
101.339 Other Plant and Misc. Equipment	6,000	0.0667	2.0		790	400
	<u>42,335</u>					
<b>2008 Additions</b>						
101.304 Structures and Improvements	32,732	0.0370	1.0		1,212	1,212
101.311 Pumping Equipment	1,870	0.0588	1.5		165	110
101.320 Water Treatment Equipment	31,316	0.0588	1.0		1,842	1,842
101.331 Transmission & Distribution Mains	6,200	0.0263	1.5		248	163
101.333 Services	5,232	0.0286	1.5		223	149
101.334 Meters and Meter Installations	4,045	0.0588	1.0		238	238
	<u>81,395</u>					
<b>2009 Additions</b>						
101.311 Pumping Equipment	75	0.0588	0.5		2	2
101.320 Water Treatment Equipment	2,793	0.0588	0.5		87	87
	<u>2,868</u>					
<b>Balance 9/30/2009:</b>	<b>\$ 1,251,335</b>				<b>\$ 374,489</b>	<b>\$ 46,278</b>

A Accumulated Depreciation on 7/31/2001 to 10/16/2003 plant in service balances from 10/16/2003 to 9/30/2009.

B Depreciation expense on 7/31/2001 to 10/16/2003 plant in service balances for test-year ending 9/30/2009.

C Depreciation rates per Rule 25-30.140 F.A.C.

NOTE: Half-year convention is used in determining depreciation.

CWS Communities LP dba Palm Valley Utilities  
Wastewater Plant

Schedule 2

Account	Cost	Depreciation Annual Rate	Years in Service	Accumulated Depreciation	Current Depreciation
7/31/2001 per FPSC Order # PSC-02-1111-PAA-WS	\$ 1,929,409	C		\$ 625,992	
10/16/2003 Net Additions per FPSC Order # PSC-05-0186-PAA-WS	473,834			164,567	
				526,303	A \$ 111,088 B
<b>2004 Additions</b>					
101.355 Power Generation Equipment	38,000	0.0588	5.5	12,334	2,235
101.366 Reuse Services	21,840	0.0286	5.0	3,120	624
101.371 Pumping Equipment	9,825	0.0667	5.0	3,295	655
101.374 Reuse Distribution Reservoirs	10,500	0.0303	5.5	1,741	318
101.375 Reuse Transmission & Distribution	774	0.0263	5.0	101	20
101.380 Treatment and Disposal Equipment	266,221	0.0667	5.0	87,962	17,748
	<u>347,160</u>				
<b>2005 Additions</b>					
101.354 Structures and Improvements	130	0.0370	4.0	19	5
101.366 Reuse Services	8,807	0.0286	4.0	1,003	252
101.367 Reuse meters and meters install	6,101	0.0588	4.0	1,432	359
101.371 Pumping Equipment	9,700	0.0667	4.0	2,567	647
101.380 Treatment and Disposal Equipment	60,897	0.0667	4.0	16,172	4,060
101.381 Plant Sewers	16,200	0.0313	4.0	2,037	506
101.389 Other Plant and Misc. Equipment	6,491	0.0667	4.0	1,724	433
	<u>108,326</u>				
<b>2006 Additions</b>					
101.361 Collection Sewers - Gravity	5,308	0.0250	3.5	466	133
101.366 Reuse Services	2,800	0.0286	3.5	282	80
101.371 Pumping Equipment	16,550	0.0667	3.0	3,289	1,103
101.380 Treatment and Disposal Equipment	43,377	0.0667	3.0	8,699	2,892
101.389 Other Plant and Misc. Equipment	358	0.0667	3.5	83	24
	<u>68,393</u>				
<b>2007 Additions</b>					
101.354 Structures and Improvements	12,594	0.0370	2.0	939	466
101.366 Reuse Services	3,450	0.0286	2.5	246	99
101.380 Treatment and Disposal Equipment	30,659	0.0667	2.0	4,077	2,044
101.381 Plant Sewers	500	0.0313	2.0	31	16
	<u>47,203</u>				
<b>2008 Additions</b>					
101.355 Power Generation Equipment	883	0.0588	1.5	77	52
101.363 Services to Customers	5,600	0.0286	1.0	156	156
101.364 Flow Measuring Devices	11,373	0.2000	1.0	2,256	2,256
101.371 Pumping Equipment	2,230	0.0667	1.0	153	153
101.380 Treatment and Disposal Equipment	9,449	0.0667	1.5	939	630
	<u>29,535</u>				
<b>2009 Additions</b>					
101.354 Structures and Improvements	13,950	0.0370	0.5	238	238
101.363 Services to Customers	11,700	0.0286	0.5	171	171
101.371 Pumping Equipment	12,190	0.0667	0.5	403	403
101.380 Treatment and Disposal Equipment	10,750	0.0667	0.5	367	367
101.389 Other Plant and Misc. Equipment	1,000	0.0667	0.0	-	-
	<u>49,590</u>				
<b>Balance 9/30/2009:</b>	<b>\$ 3,053,449</b>			<b>\$ 1,473,242</b>	<b>\$ 150,231</b>

A Accumulated Depreciation on 10/16/2003 plant in service balances from 10/16/2003 to 9/30/2009.

B Depreciation expense on 10/16/2003 plant in service balances for test-year ending 9/30/2009.

C Depreciation rates per Rule 25-30.140 F.A.C.

NOTE: Half-year convention is used in determining depreciation.

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** Based on the plant investment schedule, the following general ledger entries are required to correct the utility's balances as of September 30, 2009.

NARUC			
Acct. No.	Account Description	Debit	Credit
<u>Water</u>			
108	Accumulated Depreciation	\$308,408	
309	Supply Mains	\$ 21,252	
310	Power Generation Equipment	\$ 6,978	
311	Pumping Equipment	\$ 31,986	
320	Water Treatment Equipment	\$ 48,904	
330	Distribution Reservoirs	\$ 14,005	
331	Transmission and Distribution Mains	\$115,319	
334	Meters and Meter Installations	\$ 58,129	
336	Backflow Prevention Devices	\$ 16,905	
215	Retained Earnings		\$283,956
304	Structures and Improvements		\$ 63,138
333	Services		\$ 54,308
335	Hydrants		\$ 1,343
339	Other Plant and Misc. Equipment		\$207,525
403	Depreciation Expense		\$ 11,616
<u>Wastewater</u>			
215	Retained Earnings	\$ 83,474	
355	Power Generation Equipment	\$ 38,883	
360	Collecting Sewers – Force	\$ 11,218	
361	Collecting Sewers – Gravity	\$ 96,364	
363	Services to Customers	\$ 82,383	
364	Flow Measuring Devices	\$ 55,854	
366	Reuse Services	\$ 56,825	
367	Reuse Meters and Meters Installations	\$ 6,101	
370	Receiving Wells	\$ 70,358	
371	Pumping Equipment	\$ 81,751	
374	Reuse Distribution Reservoirs	\$144,619	
375	Reuse Transmission & Distribution	\$223,063	
380	Treatment and Disposal Equipment	\$187,638	
381	Plant Sewers	\$ 58,113	
394	Laboratory Equipment	\$ 3,414	
403	Depreciation Expense	\$ 59,341	
108	Accumulated Depreciation		\$386,171
354	Structures and Improvements		\$466,405
362	Special Collecting Structures		\$ 58,973
382	Outfall Sewer Lines		\$102,020
389	Other Plant and Misc. Equipment		\$242,080
393	Tools, Shop, and Garage Equipment		\$ 3,750

### AUDIT FINDING NO. 3

#### SUBJECT: CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC), ACCUMULATED AMORTIZATION OF CIAC, AND AMORTIZATION EXPENSE

**AUDIT ANALYSIS:** The utility recorded the following balances on its books and records as of September 30, 2009. Order No. PSC-02-1111-PAA-WS from Docket No. 010823-WS, issued August 13, 2002, established the beginning balances for rate base as of July 31, 2001. The audit staff reviewed the supporting documentation provided by the utility and was able to reconcile the cash receipts to an Other Utility Income account in the general ledger. We also noted that the cash receipts are reflective of service availability charges authorized in the utility's Commission approved tariffs. Utilizing the audit staff's balances for plant in service and depreciation expense, we calculated annual composite rates to use in determining the following accumulated amortization of CIAC and amortization expense balances.

<u>Description</u>	<u>Balance per Utility 9/30/2009</u>	<u>Audit Adjustment</u>	<u>Balance per Audit 9/30/2009</u>
<u>Water System</u>			
CIAC	\$ 335,999	\$ 15,530	\$ 351,529
Accumulated Amortization of CIAC	\$ 99,426	\$ 9,089	\$ 108,515
Amortization Expense	\$ 10,465	\$ 2,370	\$ 12,835
<u>Wastewater System</u>			
CIAC	\$ 543,472	\$ 18,689	\$ 562,161
Accumulated Amortization of CIAC	\$ 284,063	\$ 40,043	\$ 324,106
Amortization Expense	\$ 16,963	\$ 10,606	\$ 27,569

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** Based on the plant investment schedule, the following general ledger entries are required to correct the utility's balances as of September 30, 2009.

NARUC			
Acct. No.	Account Description	Debit	Credit
<u>Water</u>			
272	Accumulated Amortization of CIAC	\$ 9,089	
215	Retained Earnings	\$ 8,811	
271	CIAC		\$15,530
403	Amortization Expense		\$ 2,370
<u>Wastewater</u>			
272	Accumulated Amortization of CIAC	\$40,043	
215	Retained Earnings		\$10,748
271	CIAC		\$18,689
403	Amortization Expense		\$10,606

**AUDIT FINDING NO. 4**

**SUBJECT: WATER REVENUE – COUNTY TAXES**

**AUDIT ANALYSIS:** The utility recorded \$170,079 for Water Revenue on its general ledger. Audit staff found that the utility included a 4% Seminole County water tax in this amount. This tax is a line item on the customer bill and should not be considered when developing tariff rates. We recalculated water revenue to exclude the county's water tax and removed it from expense in Audit Finding No. 6.

Balance Per Utility 9/30/2009	Audit Adjustments	Balance Per Audit 9/30/2009
\$170,079	(\$6,431)	\$163,648

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** The following general ledger entry is needed to decrease the utility's general ledger as of September 30, 2009.

NARUC			
Acct. No.	Account Description	Debit	Credit
461	Water – Residential Revenue	\$6,431	
236	Accrued Taxes		\$6,431

**AUDIT FINDING NO. 5**

**SUBJECT: WASTEWATER REVENUE**

**AUDIT ANALYSIS:** Audit staff found that on a judgmental sample of billing data for General Service customers (5/8" x 3/4" meters), the utility used the correct base facility charge but used a 6,000 gallon cap when calculating its gallonage charge. According to the tariff issued June 30, 2008, there is a 6,000 gallon cap for Residential Service but not for General Service. The utility is not in compliance with its tariff on this issue. Audit staff does not have an adjustment as only a sample was examined.

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** None calculated.

**AUDIT FINDING NO. 6**

**SUBJECT: WATER OPERATION AND MAINTENANCE (O&M) EXPENSES**

**AUDIT ANALYSIS:** Audit staff reviewed the supporting documentation for O&M expenses and determined that Water O&M Expense should be decreased by \$13,455 per the following net adjustments.

NARUC Account	Description	Balance per Utility 9/30/2009	Audit Adjustments	Balance per Audit 9/30/2009	Ref. No.
601	Salaries and Wages - Employees	\$ 19,118	\$ -	\$ 19,118	
604	Employee Pensions & Benefits	2,949	-	2,949	
615	Purchased Power	20,363	2,447	22,810	1
616	Fuel for Power Production	1,048	-	1,048	
618	Chemicals	5,544	(150)	5,394	1
620	Materials and Supplies	1,004	835	1,839	1
630	Contract Services-Billing	3,917	(864)	3,053	1
631	Contract Services-Professional	270	797	1,067	2
635	Contract Services-Testing	5,773	(980)	4,793	1
636	Contract Services-Other, Operator Fees	15,730	(75)	15,654	
636	Contract Services-Other, Computer Maint.	3,413	-	3,413	
650	Transportation Expense	900	-	900	
665	Rate Case Expense	-	394	394	1
675	Miscellaneous Expense	22,322	(15,858)	6,464	1, 2
		<b>\$ 102,351</b>	<b>\$ (13,455)</b>	<b>\$ 88,896</b>	

Reference 1: Due to out of period expenses and reclassifications within O&M expense, the following general ledger entry is needed to correct the utility's Water O&M expenses as of September 30, 2009.

NARUC Acct. No.	Account Description	Debit	Credit
615	Purchased Power	\$2,447	
620	Materials and Supplies	\$ 835	
665	Rate Case Expense	\$ 394	
618	Chemicals		\$ 150
630	Contract Services-Billing		\$ 864
635	Contract Services-Testing		\$ 980
636	Contract Services-Other		\$ 75
675	Miscellaneous Expense		\$1,607

Reference 2: The following general ledger entry is needed to reclass an engineering cost from plant in service to Water O&M expense as well as reclass regulatory assessment fees and remove the Seminole County Water Tax from Water O&M expense as of September 30, 2009.

NARUC

Acct. No.	Account Description	Debit	Credit
174	Misc. Current and Accrued Assets	\$6,431	
408	TOTI	\$7,821	
631	Contract Services-Professional	\$ 797	
389	Other Plant and Misc. Equipment		\$ 797
675	Miscellaneous Expense		\$14,252

**AUDIT FINDING NO. 7**

**SUBJECT: WASTEWATER OPERATION AND MAINTENANCE (O&M) EXPENSES**

**AUDIT ANALYSIS:** Audit staff reviewed the supporting documentation for O&M expenses and determined that Wastewater O&M Expense should be decreased by \$6,983 per the following net adjustments.

NARUC Account	Description	Balance per Utility 9/30/2009	Audit Adjustments	Balance per Audit 9/30/2009	Ref. No.
701	Salaries and Wages - Employees	\$ 19,118	\$ -	\$ 19,118	
704	Employee Pensions & Benefits	2,949	-	2,949	
711	Sludge Removal	41,236	-	41,236	
715	Purchased Power	20,363	2,447	22,810	1
716	Fuel for Power Production	1,048	-	1,048	
718	Chemicals	28,339	(591)	27,748	1
720	Materials and Supplies	1,004	8,059	9,063	2
730	Contract Services-Billing	3,917	(864)	3,053	1, 2
731	Contract Services-Professional	302	797	1,099	3
735	Contract Services-Testing	2,560	-	2,560	
736	Contract Services-Other, Operator Fees	86,999	2,200	89,199	1
736	Contract Services-Other, Computer Maint.	3,413	-	3,413	
736	Contract Services-Other, Landscaping	20,561	-	20,561	
750	Transportation Expense	900	-	900	
765	Rate Case Expense	-	394	394	2
775	Miscellaneous Expense	23,339	(19,424)	3,915	1, 2, 3
		<b>\$ 256,047</b>	<b>\$ (6,983)</b>	<b>\$ 249,064</b>	

Reference 1: Due to out of period expenses, the following general ledger entry is needed to increase the utility's Wastewater O&M expenses as of September 30, 2009. The net effect on the O&M expense is \$3,089.

NARUC Acct. No.	Account Description	Debit	Credit
715	Purchased Power	\$2,447	
736	Contract Services-Other, Operator Fees	\$2,200	
215	Retained Earnings		\$3,089
718	Chemicals		\$ 591
730	Contract Services-Billing		\$ 721
775	Miscellaneous Expense		\$ 246

Reference 2: The following general ledger entry is needed to record reclassifications within Wastewater O&M Expenses as of September 30, 2009.

NARUC

Acct. No.	Account Description	Debit	Credit
720	Materials and Supplies	\$8,059	
765	Rate Case Expense	\$ 394	
730	Contract Services-Billing		\$ 144
775	Miscellaneous Expense		\$8,309

Reference 3: The following general ledger entry is needed to reclass an engineering cost from plant in service to Wastewater O&M expense as well as reclass regulatory assessment fees from Wastewater O&M expense as of September 30, 2009. The net effect on O&M expense is (\$10,072).

NARUC

Acct. No.	Account Description	Debit	Credit
408	TOTI	\$10,869	
731	Contract Services-Professional	\$ 797	
389	Other Plant and Misc. Equipment		\$ 797
775	Miscellaneous Expense		\$10,869

**AUDIT FINDING NO. 8**

**SUBJECT: TAXES OTHER THAN INCOME (TOTI)**

**AUDIT ANALYSIS:** The audit staff reviewed the components for TOTI and noted that the utility recorded \$29,985 for its tangible property tax. Based on the plant in service ratio for tangible property taxes, we were able to determine the following:

WATER				
Description	Balance per Utility 9/30/2009	Audit Adjustment	Balance per Audit 9/30/2009	
Regulatory Assessment Fees (RAFs)	\$ -	\$ 7,364	\$ 7,364	A
Tangible Property Tax	302	7,494	7,796	B
Payroll Tax	1,539	-	1,539	
<b>Total</b>	<b>\$ 1,841</b>	<b>\$ 14,858</b>	<b>\$ 16,699</b>	

<b>A</b>	From Audit Finding No. 6 – Accrued RAFs	\$7,821
	RAF Adjustment per Audit	( <u>\$ 457</u> )
	From Audit Finding No. 4 – \$163,648 x 4.5% =	<u>\$7,364</u>
<b>B</b>	Tangible Property Tax: \$29,985 x 26% =	<u>\$7,796</u>

Description	Balance per Utility 9/30/2009	Audit Adjustment	Balance per Audit 9/30/2009	
Regulatory Assessment Fees (RAFs)	\$ -	\$ 10,362	\$ 10,362	C
Tangible Property Tax	28,460	(6,271)	22,189	D
Payroll Taxes	1,539	-	1,539	
<b>Total</b>	<b>\$ 29,999</b>	<b>\$ 4,090</b>	<b>\$ 34,089</b>	

<b>C</b>	From Audit Finding No. 7 – Accrued RAFs	\$10,869
	RAF Adjustment per Audit	( <u>\$ 507</u> )
	From General Ledger – \$230,259 x 4.5% =	<u>\$10,362</u>
<b>D</b>	Tangible Property Tax: \$29,985 x 74% =	<u>\$22,189</u>

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** The following general ledger entries are needed to correct the utility's TOTI balance as of September 30, 2009.

NARUC			
Acct. No.	Account Description	Debit	Credit
<u>Water</u>			
408	Taxes other than Income	\$14,858	
215	Retained Earnings		\$14,858
<u>Wastewater</u>			
408	Taxes other than Income	\$ 4,090	
215	Retained Earnings		\$ 4,090

**AUDIT FINDING NO. 9**

**SUBJECT: REAL ESTATE PROPERTY TAXES**

**AUDIT ANALYSIS:** The audit staff reviewed the components for TOTI and noted that the utility did not record any real estate taxes. CWS Communities LP owns the land that Palm Valley Mobile Home Park sits on and paid \$330,122 in taxes for all 227.37 acres. In addition, the utility provided this information: 1) Water Plant: .5 acres, 2) Wastewater Plant: 1.25 acres, 3) Effluent Disposal Site: 45.873 acres. The remaining acreage is applicable to the mobile home park. Audit staff discussed this with the staff engineer and the division of this tax between the utility and the mobile home park will be determined by him.

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** None calculated.

**IV. EXHIBITS**

**EXHIBIT NO. 1 – WATER RATE BASE**

**CWS COMMUNITIES LP D/B/A PALM VALLEY UTILITIES  
 STAFF-ASSISTED RATE CASE  
 DOCKET NO. 090447-WS  
 SCHEDULE OF WATER RATE BASE  
 FOR TEST YEAR ENDED SEPTEMBER 30, 2009**

Description	Balance per Utility 9/30/2009	Audit Adjustments	Audit Finding	Balance per Audit 9/30/2009	Average Balance Per Audit
Utility Plant in Service	\$ 1,264,170	\$ (12,835)	1	\$ 1,251,335	\$ 1,239,726
Land	2,433	-		2,433	2,433
Accumulated Depreciation	(682,897)	308,408	1	(374,489)	(352,535)
Contributions in Aid of Construction	(335,999)	(15,530)	2	(351,529)	(347,048)
Accumulated Amortization of CIAC	99,426	9,089	2	108,515	102,322
Working Capital Allowance:	-	11,112		11,112	11,112
<b>RATE BASE</b>	<b>\$ 347,133</b>	<b>\$ 300,244</b>		<b>\$ 647,377</b>	<b>\$ 656,011</b>

**EXHIBIT NO. 2 – WASTEWATER RATE BASE**

**CWS COMMUNITIES LP D/B/A PALM VALLEY UTILITIES  
 STAFF-ASSISTED RATE CASE  
 DOCKET NO. 090447-WS  
 SCHEDULE OF WASTEWATER RATE BASE  
 FOR TEST YEAR ENDED SEPTEMBER 30, 2009**

Description	Balance per Utility 9/30/2009	Audit Adjustments	Audit Finding	Balance per Audit 9/30/2009	Average Balance Per Audit
Utility Plant in Service	\$ 2,810,092	\$ 243,357	1	\$ 3,053,449	\$ 3,024,962
Land	96,409	-		96,409	96,409
Accumulated Depreciation	(1,087,070)	(386,172)	1	(1,473,242)	(1,401,514)
Contributions in Aid of Construction	(543,472)	(18,689)	2	(562,161)	(560,335)
Accumulated Amortization of CIAC	284,063	40,043	2	324,106	310,456
Working Capital Allowance:	-	31,133		31,133	31,133
<b>RATE BASE</b>	<b>\$ 1,560,022</b>	<b>\$ (90,328)</b>		<b>\$ 1,469,694</b>	<b>\$ 1,501,111</b>

**EXHIBIT NO. 3 – WATER NET OPERATING INCOME**

**CWS COMMUNITIES LP D/B/A PALM VALLEY UTILITIES  
 STAFF-ASSISTED RATE CASE  
 DOCKET NO. 090447-WS  
 SCHEDULE OF WATER NET OPERATING INCOME  
 FOR TEST YEAR ENDED SEPTEMBER 30, 2009**

Description	Balance per Utility 9/30/2009	Audit Adjustments	Audit Finding	Balance per Audit 9/30/2009
Operating Revenues	\$ 170,079	\$ (6,431)	4	\$ 163,648
Operation & Maintenance Expenses	102,351	(13,455)	6	88,896
Depreciation Expense	57,894	(11,616)	2	46,278
CIAC Amortization Expense	(10,465)	(2,370)	3	(12,835)
Taxes Other than Income (1)	1,841	14,858	8	16,699
<b>Total Operating Expenses:</b>	<b>\$ 151,621</b>	<b>\$ (12,583)</b>		<b>\$ 139,038</b>
<b>Net Operating Income (Loss)</b>	<b>\$ 18,458</b>	<b>\$ 6,152</b>		<b>\$ 24,610</b>
<b>Rate Base - Simple Average</b>	<b>\$ 380,703</b>			<b>\$ 656,011</b>
<b>Rate of Return</b>	<b>4.85%</b>			<b>3.75%</b>

(1) Does not include Real Estate Tax. See Audit Finding 9.

**EXHIBIT NO. 4 – WASTEWATER NET OPERATING INCOME**

**CWS COMMUNITIES LP D/B/A PALM VALLEY UTILITIES  
 STAFF-ASSISTED RATE CASE  
 DOCKET NO. 090447-WS  
 SCHEDULE OF WASTEWATER NET OPERATING INCOME  
 FOR TEST YEAR ENDED SEPTEMBER 30, 2009**

Description	Balance per Utility 9/30/2009	Audit Adjustments	Audit Finding	Balance per Audit 9/30/2009
Operating Revenues	\$ 230,259	\$ -	5	\$ 230,259
Operation & Maintenance Expenses	256,047	(6,983)	7	249,064
Depreciation Expense	90,890	59,342	2	150,231
CIAC Amortization Expense	(16,963)	(10,606)	3	(27,569)
Taxes Other than Income (1)	29,999	4,090	8	34,089
<b>Total Operating Expenses:</b>	<b>\$ 359,973</b>	<b>\$ 45,843</b>		<b>\$ 405,815</b>
<b>Net Operating Income (Loss)</b>	<b>\$ (129,714)</b>	<b>\$ (45,843)</b>		<b>\$ (175,556)</b>
<b>Rate Base - Simple Average</b>	<b>\$ 1,598,584</b>			<b>\$ 1,501,111</b>
<b>Rate of Return</b>	<b>-8.11%</b>			<b>-11.70%</b>

(1) Does not include Real Estate Tax. See Audit Finding 9.

**EXHIBIT NO. 5 – CAPITAL STRUCTURE**

**HOMETOWN AMERICA LLC (CWS COMMUNITIES LP D/B/A PALM VALLEY UTILITIES)  
 STAFF-ASSISTED RATE CASE  
 DOCKET NO. 090447-WS  
 CONSOLIDATED CAPITAL STRUCTURE  
 FOR TEST YEAR ENDED SEPTEMBER 30, 2009**

Description	Balance per Utility 9/30/2009	Audit Adjustments	Balance per Audit 9/30/2009	Ratio	Cost Rate	Weighted Cost
Common Equity	\$ 1,270,790,310	\$ -	\$ 1,270,790,310	41.12%	11.220%	4.61%
Long-term Debt	1,819,297,660	-	1,819,297,660	58.88%	5.480%	3.23%
<b>TOTAL CAPITAL</b>	<b>\$ 3,090,087,970</b>	<b>\$ -</b>	<b>\$ 3,090,087,970</b>	<b>100.00%</b>		<b>7.84%</b>

As per order PSC-09-0430-PAA-WS, issued June 19, 2009:

**Leverage Formula:** Return on Common Equity = 8.58% + 1.087/Equity Ratio  
 Where Equity Ratio = Common Equity/(Common Equity + Preferred Equity  
 + Long-Term and Short-Term Debt)  
 Range: 9.67% @ 100% equity to 11.30% @ 40% equity