

ORIGINAL

MEMORANDUM

June 11, 1998

TO: DIVISION OF RECORDS AND REPORTING
FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *W*
RE: DOCKET NO. 971456-WS -- TIMBERWOOD UTILITIES
AUDIT REPORT - TRANSFER
AUDIT CONTROL NO. 98-034-3-2

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on one diskette. The diskette may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this audit report to:

Timberwood Utilities
Kurt Wallach
1717 20th Street, Suite 105
Vero Beach, FL 32960-0619

DNV/sp
Attachment

- ACK _____ cc: Chairman Johnson
- AFA _____ Commissioner Clark
- APP _____ Commissioner Deason
- CAF _____ Commissioner Garcia
- CMJ _____ Commissioner Jacobs
- CTK _____ Mary Andrews Bahe, Deputy Executive Director/Technical
Legal Services
- EAG _____ Division of Auditing and Financial Analysis (Devlin/Causseaux/
File Folder)
- LE _____ Division of Water and Wastewater (Johnson)
- _____ Orlando District Office (Forbes)

5

Research and Regulatory Review (Harvey)
Office of Public Counsel

L

DOCUMENT NUMBER DATE

06241 JUN 12 98

REGISTRATION



FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING***

Orlando District Office

TIMBERWOOD UTILITIES

CERTIFICATE OF TRANSFER AUDIT

PERIOD ENDED JANUARY 31, 1998

**DOCKET NO. 971456-WS
AUDIT CONTROL NO. 98-034-3-2**

Jeffrey A. Small, Audit Manager

Ian J. Forbes, District Audit Supervisor

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE	1
	DISCLAIM PUBLIC USE	1
	OPINION	1
	SUMMARY OF SIGNIFICANT FINDINGS	2
	SUMMARY OF SIGNIFICANT PROCEDURES	2
II.	EXCEPTIONS	
	1. WATER AND WASTEWATER UPIS ALLOCATION ADJUSTMENTS	3
	2. WASTEWATER UPIS ADJUSTMENTS	7
	3. WATER AND WASTEWATER ACC/DEP ADJUSTMENTS	8
III.	DISCLOSURES	
	1. UNDERCHARGED WATER AND WASTEWATER TARIFFS	9
IV.	EXHIBITS	
	WATER RATE BASE	10
	WASTEWATER RATE BASE	11

**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT**

MAY 29, 1998

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying Rate Base schedules as of January 31, 1998, for Timberwood Utilities. These schedules were prepared by audit staff as part of the company's application for Certificate of Transfer in Docket No. 971456-WS. There is no confidential information associated with this audit.

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.

In our opinion, the auditor-prepared schedules referred to above present fairly, in all material respects, the company's books and records, which are maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

SUMMARY OF SIGNIFICANT FINDINGS

The company's utility-plant-in-service (UPIS) Accounts 340 and 390 are overstated by \$1,820 each because of misallocations and missing plant assets.

The company's UPIS Account 380 is understated by \$3,574 because of unsupported plant additions in 1991 and unrecorded plant additions in 1997.

The company has understated its accumulated amortization balance for Account 301 by (\$238) and its accumulated depreciation balance for Account 354 by (\$1,509) because it used a rate and beginning balance that differed from those prescribed by the Commission.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by verifying additions to company's books and records since rate base was last established by the Commission in Docket No. 900749-WS for the period ended November 30, 1990. We believe the above procedures are sufficient to base our opinion. 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.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error and inconsistency.

Verify - The items were tested for accuracy, and substantiating documentation was examined.

RATE BASE: Compiled account balances for utility-plant-in-service (UPIS), land and land rights, contributions-in-aid-of-construction (CIAC), accumulated depreciation, and accumulated amortization of CIAC for January 31, 1998. Scanned account balances and verified all additions for rate base since November 30, 1990.

NET OPERATING INCOME: Scanned and recomputed an audit-determined sample of company billing records to verify the existing rates, miscellaneous service charges, service availability charges, and customer deposits charged by the company.

OTHER: Determined whether any extraordinary circumstances surrounding the purchase and transfer of utility assets would necessitate an acquisition adjustment.

Audit Exception No. 1

Subject: Water & Wastewater Utility-Plant-In-Service Allocations

Statement of Facts: In 1992 the company recorded \$8,225 of additions to Accounts 340 and 390 for office equipment purchases.

Situation One

The company is composed of three operating divisions: Timberwood Water, Timberwood Wastewater, and Arbor Oaks Mobile Home Park.

All three divisions share office space and office equipment in a small room located in the mobile home community's clubhouse.

The company allocated all of the office equipment purchases equally between the water and wastewater divisions. (\$4,113 each)

The company allocates telephone and waste collection services equally among all three operating divisions.

Prior Commission Order PSC-92-1197-FOF-III required the allocation of company assets when the non-utility affiliates use of such assets is "substantial."

Situation Two

Rule 25-30.037 (2) (g) 2., Florida Administrative Code, requires the transferor to provide a list of all assets being purchased by the buyer as part of the contract for sale of the utility.

The sales contract for this Certificate of Transfer states that all utility assets will be transferred at the time of closing.

Auditor conducted a tour of plant facilities with the wastewater plant operator and office manager on May 12, 1998. All UPIS assets identified as being transferred in the sales contract were visually located except for the mobile cellular phone, five of six high back executive chairs, and the two office telephones.

Staff questioned the seller about the missing assets. He stated that all assets were being transferred and that they did not know where the three above-mentioned assets were located.

Audit Exception No. 1, continued

Opinion/Recommendation: Accounts 340 and 390 - Office Furniture & Equipment are overstated by \$1,820 each and Accounts 108 - Accumulated Depreciation (water/wastewater) are overstated by \$998 each as explained below.

Situation One

The \$8,225 of office equipment should be allocated equally among the three operating divisions of the company because they have equal access and use of the office and equipment.

The company should reduce Accounts 340 and 390 by \$1,371 each. Additionally, the company should reduce the respective accumulated depreciation accounts by \$549 each.

(See attached Schedules A & B for staff calculations.)

Situation Two

The company should retire the missing assets by reducing Accounts 340 and 390 by \$449 each and its respective accumulated depreciation accounts by \$449.

(See details below.)

Conclusions: The Commission should require the company to reduce Accounts 340 and 390 - Office Furniture & Equipment by \$1,820 each and, Accounts 108 - Accumulated Depreciation (water/wastewater) by \$998 each as illustrated below.

<u>Adjustment</u>	<u>Acc# 340 - Water</u>	<u>Acc# 390 - W/Water</u>
Situation One(a)	(\$1,371)	(\$1,371)
Situation Two(b)	(\$449)	(\$449)
Total Adjustment	(\$1,820)	(\$1,820)

<u>Adjustment</u>	<u>Acc# 108 - Water</u>	<u>Acc# 108 - W/Water</u>
Situation One(c)	\$549	\$549
Situation Two(d)	\$449	\$449
Total Adjustment	\$998	\$998

- (a) Total adjustment from Schedule A
- (b) The sum of per audit original cost amounts for the retired cell phone, five of six office chairs, and office phones from Schedule A (($\$49.70 + \$379.48/6 \times 5 + 83.04$))
- (c) Total adjustment from Schedule B
- (d) Per NARUC USoA for Class C Utilities, Accounting Instruction 5D for asset retirements

Schedule A for Audit Exception No. 1

Audit Adjustments to Accounts 340 & 390 - Office Furniture & Equipment

Equipment Purchased	Original Cost	Per Company Transaction			Auditor Adjustments			Per Audit Transaction		
		M/H Park	Water	W/Water	M/H Park	Water	W/Water	M/H Park	Water	W/Water
Copier	954.76	0.00	477.38	477.38	318.25	(159.13)	(159.13)	318.25	318.25	318.25
Cell phone	149.10	0.00	74.55	74.55	49.70	(24.85)	(24.85)	49.70	49.70	49.70
Printer	486.26	0.00	243.13	243.13	162.09	(81.04)	(81.04)	162.09	162.09	162.09
Fax machine	350.39	0.00	175.20	175.20	116.80	(58.40)	(58.40)	116.80	116.80	116.80
Office chairs	1,138.44	0.00	569.22	569.22	379.48	(189.74)	(189.74)	379.48	379.48	379.48
Office Furniture	2,277.61	0.00	1,138.81	1,138.81	759.20	(379.60)	(379.60)	759.20	759.20	759.20
Computer	2,619.63	0.00	1,309.82	1,309.82	873.21	(436.61)	(436.61)	873.21	873.21	873.21
Phones(2)	249.11	0.00	124.56	124.56	83.04	(41.52)	(41.52)	83.04	83.04	83.04
Totals	\$8,225.30	\$0.00	\$4,112.65	\$4,112.65	\$2,741.77	(\$1,370.88)	(\$1,370.88)	\$2,741.77	\$2,741.77	\$2,741.77

Schedule B for Audit Exception No. 1

Audit Adjustments to Accounts 108 - Accumulated Depreciation (water & w/water)

Equipment	Action	Cost	1991	1992	1993	1994	1995	1996	1997	1998	Adjust.
Copier	Per Audit	318.25	10.61	21.22	21.22	21.22	21.22	21.22	21.22	1.77	
	Per Company	<u>477.38</u>	0.00	<u>26.52</u>	<u>31.83</u>	<u>31.83</u>	<u>31.83</u>	<u>31.83</u>	<u>31.83</u>	<u>2.65</u>	
	Difference	(159.13)	10.61	(5.30)	(10.61)	(10.61)	(10.61)	(10.61)	(10.61)	(0.88)	(48.62)
Cell Phone	Per Audit	49.70	0.00	1.66	3.31	3.31	3.31	3.31	3.31	0.28	
	Per Company	<u>74.55</u>	0.00	<u>4.56</u>	<u>4.97</u>	<u>4.97</u>	<u>4.97</u>	<u>4.97</u>	<u>4.97</u>	<u>0.41</u>	
	Difference	(24.85)	0.00	(2.90)	(1.66)	(1.66)	(1.66)	(1.66)	(1.66)	(0.14)	(11.34)
Printer	Per Audit	162.09	0.00	5.40	10.81	10.81	10.81	10.81	10.81	0.90	
	Per Company	<u>243.13</u>	0.00	<u>13.50</u>	<u>16.20</u>	<u>16.20</u>	<u>16.20</u>	<u>16.20</u>	<u>16.20</u>	<u>1.35</u>	
	Difference	(81.04)	0.00	(8.10)	(5.39)	(5.39)	(5.39)	(5.39)	(5.39)	(0.45)	(35.50)
Fax machine	Per Audit	116.80	0.00	3.89	7.79	7.79	7.79	7.79	7.79	0.65	
	Per Company	<u>175.20</u>	0.00	<u>8.76</u>	<u>11.68</u>	<u>11.68</u>	<u>11.68</u>	<u>11.68</u>	<u>11.68</u>	<u>0.97</u>	
	Difference	(58.40)	0.00	(4.87)	(3.89)	(3.89)	(3.89)	(3.89)	(3.89)	(0.32)	(24.64)
Office chairs	Per Audit	379.48	0.00	12.65	25.30	25.30	25.30	25.30	25.30	2.11	
	Per Company	<u>569.22</u>	0.00	<u>28.46</u>	<u>37.95</u>	<u>37.95</u>	<u>37.95</u>	<u>37.95</u>	<u>37.95</u>	<u>3.16</u>	
	Difference	(189.74)	0.00	(15.81)	(12.65)	(12.65)	(12.65)	(12.65)	(12.65)	(1.05)	(80.11)
Office furniture	Per Audit	759.20	0.00	25.31	50.61	50.61	50.61	50.61	50.61	4.22	
	Per Company	<u>1,138.81</u>	0.00	<u>56.91</u>	<u>75.91</u>	<u>75.91</u>	<u>75.91</u>	<u>75.91</u>	<u>75.91</u>	<u>6.33</u>	
	Difference	(379.61)	0.00	(31.60)	(25.30)	(25.30)	(25.30)	(25.30)	(25.30)	(2.11)	(160.21)
Computer	Per Audit	873.21	0.00	29.11	58.21	58.21	58.21	58.21	58.21	4.85	
	Per Company	<u>1,309.82</u>	0.00	<u>58.21</u>	<u>87.32</u>	<u>87.32</u>	<u>87.32</u>	<u>87.32</u>	<u>87.32</u>	<u>7.28</u>	
	Difference	(436.61)	0.00	(29.10)	(29.11)	(29.11)	(29.11)	(29.11)	(29.11)	(2.43)	(177.08)
Telephone	Per Audit	83.04	0.00	2.77	5.54	5.54	5.54	5.54	5.54	0.46	
	Per Company	<u>124.56</u>	0.00	<u>0.69</u>	<u>8.30</u>	<u>8.30</u>	<u>8.30</u>	<u>8.30</u>	<u>8.30</u>	<u>0.69</u>	
	Difference	(41.52)	0.00	2.08	(2.76)	(2.76)	(2.76)	(2.76)	(2.76)	(0.23)	(11.95)
Total Audit Adjustment to Accumulated Depreciation											(549.45)

Company and audit calculations based on a depreciation rate of 6.667%. 1998 is month of January only. Staff calculations assume 1/2 year convention method for depreciation.

Audit Exception No. 2

Subject: Wastewater Utility-Plant-In-Service Adjustments

Statement of Facts: NARUC, Class C, Accounting Instruction 2B requires the maintenance of company records to "support fully" the facts pertaining to all company transactions.

In 1991 the company recorded \$426 of additions to Account 380 - Treatment and Disposal Equipment with \$173 in associated accumulated depreciation by January 31, 1998.

The company was unable to provide any supporting documentation for the \$426 addition referenced above.

Staff located a \$4,000 invoice for a new chlorine contact chamber that was added to the wastewater treatment facility in 1997 that was not capitalized by the company

Opinion/Recommendation:

The Commission should require the company to increase Account 380 by \$3,574 and reduce Account 108 by \$17 as illustrated below to remove unsupported additions in 1991 and include the new chlorine contact chamber added in 1997.

<u>Description</u>	<u>Acc# 380</u>	<u>Acc# 108</u>
Remove unsupported addition	(\$426.00)	\$172.77
Add new contact chamber	4,000.00	(155.56)
Total adjustment	\$3,574.00	\$17.21

Audit Exception No. 3

Subject: Adjustments to Accumulated Depreciation

Statement of Facts: Rule 25-30.140 (4)(b) requires all utilities to maintain depreciation rates as prescribed by the Commission.

Prior Commission Order No. 24640 established a balance of \$5,007 and prescribed a rate of 3.17 percent for Account 301 - Organization Cost at November 30, 1990.

Company records indicate an accumulated amortization balance of (\$1,601) at January 31, 1998, and an amortization rate of 2.50 percent for Account 301 - Organization Cost.

Prior Commission Order No. 24640 established an accumulated depreciation balance of (\$10,773) for Account 354 - Structures & Improvements at November 30, 1990, using a rate of 3.70 percent.

Company records indicate an accumulated depreciation balance of (\$9,183) at November 30, 1990, and a depreciation rate of 3.70 percent for Account 354 - Structures & Improvements.

Opinion/Recommendation: The company is in violation of the Commission rule stated above.

The Commission should require the company to increase its accumulated amortization balance for Account 301 by (\$238) and its accumulated depreciation balance for Account 354 by (\$1,590) because it did not use the Commission-prescribed amortization rate or beginning balance, respectively, in its last rate proceeding. See calculations below.

Account 301 - Organization Cost

<u>Accumulated Amortization for Account 301</u>	<u>Amounts</u>
Beg. Balance Per Order No. 24640 @ 11/30/90	(\$ 701.00)
Addition for December 1990 $(\$5,007 \times 3.17\%) / 12$	(13.23)
Annual additions for 1991 to 1997 $(\$5,007 \times 3.17\%) \times 7$ years	(1,111.05)
<u>Addition for January 1998 $(\\$5,007 \times 3.17\%) / 12$</u>	<u>(13.23)</u>
Total Accumulated Amortization @ 01/31/98	(\$1,838.51)

Per Company	Adjustment	Per Audit
(\$1,601)	(\$238)	(\$1,839)

Account 354 - Structures & Improvements

Per Company	Adjustment	Per Audit
(\$9,183)	(\$1,590)	(\$10,773)

Disclosure No. 1

Subject: Undercharged Water and Wastewater Tariffs

Statement of Facts: Prior Commission Order No. 24640 established residential and general service rates of \$2.95/\$2.21 and \$9.92/\$4.88 for base facility charge/gallonge tariffs for water and wastewater services from a 5/8" meter.

In 1997 the Commission approved the company's request to increase its water and wastewater rates using a 1996 Price Index and Pass Through Adjustment, Authority No. WS-96-0224. The new rates were \$3.07/\$2.30 and \$10.31/\$5.08 for base facility charge/gallonge tariffs for water and wastewater services from a 5/8" meter as of February 1, 1997.

Annual reports filed with the Commission indicate that the company has an average customer base of 158 water and wastewater accounts.

Copies of customer bills obtained for this audit engagement indicate that the company is currently charging the following rates for water and wastewater service:

April 1997: \$2.95/\$2.30 and \$9.92/\$5.08 for base facility/gallonge tariffs for water and wastewater services
January 1998: \$2.95/\$2.30 and \$9.92/\$5.08 for base facility/gallonge tariffs for water and wastewater services

Opinion/Recommendation: The company's 1997 revenues are understated by (\$208) and (\$695), respectively, for water and wastewater services because it is not charging the last Commission-approved tariff rate for base facility charges.

<u>Authorized Tariff</u>	<u>Meter Size</u>	<u>Water</u>	<u>W/Water</u>
Order No. 24640	5/8"	\$ 2.95	\$ 9.92
Authorization No. WS-96-0224	5/8"	<u>\$ 3.07</u>	<u>\$ 10.32</u>
Difference		(\$ 0.12)	(\$ 0.40)
 <u>Revenue Effect</u>			
158 customers times differences above		(\$ 18.96)	(\$ 63.20)
February to December 1997 (11 months)		<u>x 11</u>	<u>x 11</u>
Undercharged revenues		(\$208.56)	(\$695.20)

EXHIBIT I

TIMBERWOOD UTILITIES
DOCKET NO. 971456-WS
WATER RATE BASE
PERIOD ENDED JANUARY 31, 1998

(a) DESCRIPTION	(b) PER COMPANY	(c) AUDIT EXCEPTION(1)	(d) REFER TO	(e) PER AUDIT
UTILITY PLANT-IN-SERVICE	\$65,883	(\$1,820)	E-1	\$64,063
LAND	\$0	\$0		\$0
CIAC	(\$53,583)	\$0		(\$53,583)
AMORTIZATION OF CIAC	\$15,162	\$0		\$15,162
ACCUMULATED DEPRECIATION	(\$20,148)	\$760	E-1 E-3	(\$19,388)
TOTAL	<u>\$7,314</u>	<u>(\$1,060)</u>		<u>\$6,254</u>

REQUIRED FOOTNOTES:

(1) Small differences are due to rounding.

EXHIBIT II

**TIMBERWOOD UTILITIES
DOCKET NO. 971456-WS
WASTEWATER RATE BASE
PERIOD ENDED JANUARY 31, 1998**

(a) DESCRIPTION	(b) PER COMPANY	(c) AUDIT EXCEPTION ⁽¹⁾	(d) REFER TO	(e) PER AUDIT
UTILITY PLANT-IN-SERVICE	\$193,478	\$1,754	E-2	\$195,232
LAND	\$10,152	\$0		\$10,152
CIAC	(\$95,165)	\$0		(\$95,165)
AMORTIZATION OF CIAC	\$31,940	\$0		\$31,940
ACCUMULATED DEPRECIATION	(\$71,903)	(\$575)	E-1 E-2 E-3	(\$72,478)
TOTAL	\$68,502	\$1,179		\$69,681

REQUIRED FOOTNOTES:

(1) Small differences are due to rounding.

STATE OF FLORIDA

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.



DIVISION OF RECORDS & REPORTING
BLANCA S. BAYO
DIRECTOR
(850) 413-6770

Public Service Commission

June 12, 1998

Timberwood Utilities
Kurt Wallach
1717 20th Street, Suite 105
Vero Beach, Florida 32960-0619

Re: Docket No. 971456 - WS - Arbor Oaks I, LLC and Arbor Oaks II, LLC both Delaware
Limited Liability d/b/a Timberwood Utilities
Audit Report - Transfer
Audit Control # 98-034-3-2

Dear Mr. Wallach:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above case will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,


Blanca S. Bayo

BSB/ABF
Enclosure

cc: Public Counsel
Division of Audit and Financial Analysis