

State of Florida



Public Service Commission

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

DATE: August 7, 2000
TO: Division of Economic Regulation (Casey)
FROM: Division of Regulatory Oversight (Vandiver) *W*
RE: 991627-WU-Park Water Company, Inc.
 Audit Report; Rate Case
 Audit Control No. 00-117-3-1

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, they should send it to the Division of Records and Reporting. There are no confidential work papers associated with this audit.

DNV/sp

Attachment

cc: Division of Regulatory Oversight (Hoppe/Harvey/File Folder)
 Orlando District Office
 Division of Records and Reporting
 Division of Legal Services

Anthony Staiano
 Park Water Company, Inc.
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TO: RECORDS/REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES*

Orlando District Office

PARK WATER COMPANY, INC.

CLASS C FILE AND SUSPEND RATE CASE AUDIT

12-MONTH PERIOD ENDED DECEMBER 31, 1999

DOCKET NO. 991627-WU
AUDIT CONTROL NO. 00-117-3-1

Handwritten signature of Richard F. Brown in cursive.

Richard F. Brown, Audit Manager

Handwritten signature of Charleston J. Winston in cursive.

Charleston J. Winston, District Audit Supervisor

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**DIVISION OF REGULATORY OVERSIGHT
AUDITOR'S REPORT**

JULY 21, 2000

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, Net Operating Income, and Capital Structure for the historical 12-month period ended December 31, 1999, for Park Water Company, Inc. These schedules were prepared by the utility as part of its petition for rate relief in Docket No. 991627-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 FINDINGS

Contributions-in-Aid-of-Construction (CIAC) and amortization were understated by \$90,110 and \$27,291, respectively.

Account 675, Miscellaneous Expenses was overstated as follows:

- Vehicle expense by \$3,493.61
- Distribution system repairs by \$1,653.14
- Lawn and ground expense by \$1,450.00
- Materials and supplies by \$2,017.17
- Plant and equipment expense by \$2,081.03

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 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.

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

Reviewed - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Verified - The items were tested for accuracy and compared to the substantiating documentation.

RATE BASE: Reviewed account balances for utility-plant-in-service (UPIS), CIAC, accumulated depreciation, and accumulated amortization of CIAC from the inception of the utility. Verified a sample of plant and CIAC additions using auditor judgment. Recalculated the working capital amount based on 1/8 of the adjusted operation and maintenance (O&M) expenses. Tested additions to accumulated depreciation and accumulated amortization for proper rates and calculations.

NET OPERATING INCOME: Compiled utility revenue, operating and maintenance accounts for the period ended December 31, 1999. Chose a judgmental sample of customer bills and recalculated using FPSC-approved rates. Verified a judgmental sample of operation and maintenance expenses. Tested the calculation of depreciation expense. Verified support for taxes other than income.

CAPITAL STRUCTURE: Compiled and scanned components of the capital structure as of December 31, 1999. Agreed interest expense to the terms of the notes and bonds.

OTHER: Scanned the utility's tax returns from 1995 through 1999.

Audit Exception No. 1

Subject: Books and Records

Statement of Facts: Park Water Company, Inc. (PWC) maintains its books and records on a cash basis and does not utilize the NARUC System of Accounts.

In accordance with NARUC, Class C, Accounting Instruction 2. A.,

The books of accounts of all water utilities shall be kept by the double entry method on an accrual basis. Each utility shall keep its accounts monthly and shall close its books at the end of each calendar year.

2. B, states,

All books of accounts, together with records and memoranda supporting the 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.

Rule 25-30.115 (1), F.A.C., requires all water and wastewater utilities to maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts (USOA).

Recommendation: The audit process was impeded by the absence of supporting documentation reflecting the account charged and the check number in remittance along with other vital information.

Audit staff recommends that the utility maintains its books and records in compliance with NARUC Water, Class C, Instructions.

Audit Exception No. 2

Subject: Plant and Equipment

Statement of Facts: PWC charged \$2,081.03 of plant and equipment to Account 675 Miscellaneous Expenses during the 12-month period ended December 31, 1999.

<u>Item</u>	<u>Date</u>	<u>Check</u>	<u>Amount</u>
Fence - Installation of water tank	09/01/99	1327	\$372.92
Fence - Installation of water tank	10/19/99	1378	<u>266.51</u>
Total			\$639.43

<u>Item</u>	<u>Date</u>	<u>Check</u>	<u>Amount</u>
Suppression equipment	06/03/99	1225	<u>\$1,441.60</u>
Grand total			\$2,081.03

In accordance with NARUC Water Class C Instructions per Accounts 101-304 and 101-311, the costs for capital expenditures should be capitalized.

Recommendation: Audit staff recommends that the utility record the following journal.

Accounts 101-304, Structures and Improvements	\$639.43
Accounts 101-311, Pumping Equipment	1,441.60
Account 403, Depreciation Expense	55.48
Account 675, Plant and Equipment Expense (Miscellaneous Expense)	\$2,081.03
Account 108, Accumulated Depreciation	55.48

Audit Exception No. 3

Subject: Utility Land

Statement of Facts: The original cost of land is not reflected in the Minimum Filing Requirements (MFRs), and it is not recorded in the utility's books.

The cost of the land was transferred to the utility at a value of \$100.00 according to a Warranty Deed (Book 492, page 513) reflecting documentary stamps of \$.20 filed May 19, 1961.

Recommendation: Audit staff recommends that utility land be recognized as \$100.00 and that PWC should record the value in its books and records.

Audit Exception No. 4

Subject: Depreciation and Related Reserve

Statement of Facts: In various functional plant accounts, the utility applied depreciation rates different from the guideline rates per Rule 25-30.140, Florida Administration Code (F.A.C.). Examples are illustrated below:

	<u>Per Utility</u>	<u>Per Rule 25-30.140, F.A.C.</u>
Account 334, Meters	40 years	17 years
Account 340, Office Furniture	5-7 years	15 years
Account 341, Transportation Equipment	3-5 years	6 years
Account 331, Water Mains	10, 25 & 40 years	38 years

Recommendation: Audit staff has recalculated accumulated depreciation as of December 31, 1999 and depreciation expense for the 12-month period ended December 31, 1999. The following adjustments are recommended.

- Increase accumulated depreciation by \$8,551.
- Increase depreciation expense by \$8,551.

The utility should be required to use the guideline rates per Rule 25-30.140, F.A.C.

Audit Exception No. 5

Subject: Contributions-in-Aid-of-Construction (CIAC) and Amortization

Statement of Facts: The utility had no recorded CIAC on its books and records prior to the 12-month period ended December 31, 1999.

Recommendation: Audit staff added utility CIAC and accumulated amortization at December 31, 1996, of \$74,750 and \$17,834, respectively, that were approved by the Polk County Board of County Commissioners.

Audit staff imputed meter installation and connection fees according to the utility's tariff and based on customer additions from December 31, 1996 through December 31, 1998, for a total of \$7,625.

Audit staff added 1999 meter installation and connection fees of \$7,735 to CIAC that were recorded as revenue by the utility.

Audit staff adjustments resulted in an additional \$90,110 of CIAC.

Audit staff's computations of adjusted CIAC and the related amortization are reflected in Schedules A and B on the following pages.

Audit Exception No. 5, contd.
Schedule A

Park Water Company CIAC & Related Amortization @ 12/31/99			
	CIAC	Acc. Amort - CIAC	1999 Amort.
CIAC & Accumulated Amortization Balance @ 12/31/96 per Polk County Rate Case	\$74,750	\$17,834	
Amortization of 12/31/96 CIAC Balance from 1/1/97 through 12/31/99			
Connection fees (\$ 50,000 * .0286 * 3)		4,290	
Meter Set fees (\$ 24,750 * .0588 * 3)		4,366	
Total \$74,750			
1999 Amortization on 12/31/96 CIAC Balance			
Meter Set fees (\$ 24,750 * .0588)			1,455
			1,430
1997 imputed CIAC based on customers added during year			
(1) 5/8 " customer - connection fee per tariff	400		
- meter set fee	175		
(1) 2 " customer - connection fee	550		
- meter set fee	175		
Accumulated Amortization on 1997 CIAC additions @ 12/31/99			
(1) 5/8 " customer - connection fee per tariff		29	
(400*.0286*2.5) - meter set fee (175 * .0588 * 2.5)		26	
(1) 2 " customer - connection fee (550 * .0286 * 2.5)		39	
- meter set fee (175 * .0588 * 2.5)		26	
1999 Amortization on 1997 CIAC additions			
(1) 5/8 " customer - connection fee per tariff			11
(400*.0286) - meter set fee (175 * .0588)			10
(1) 2 " customer - connection fee (550 * .0286)			16
- meter set fee (175 * .0588)			10
SUBTOTALS	\$76,050	\$26,610	\$2,932

Audit Exception No. 5, contd.
Schedule B

Park Water Company CIAC & Related Amortization @ 12/31/99				
	CIAC	Acc. Amort - CIAC	1999 Amort.	
BALANCE FORWARD	\$76,050	\$26,610		\$2,932
1998 imputed CIAC based on customers added during year	"			
(11) 5/8 " customers- connection fee per tariff (\$400 * 11)	4,400			
- meter set fees (\$ 175 * 11)	1,925			
Accumulated Amortization on 1998 CIAC additions @ 12/31/99				
5/8 " customers - connection fees (\$4400 * .0286 * 1.5)		189		
- meter set fees (\$ 1925 * .0588 * 1.5)		170		
1999 Amortization on 1998 CIAC additions				
5/8 " customers - connection fees (\$4400 * .0286)				126
- meter set fees (\$ 1925 * .0588)				113
1999 CIAC additions recorded by utility as revenue	7,735			
1999 Amortization & Accumulated Amort. on 1999 CIAC Adds.		96		96
1999 Genesis Pointe Retirement Community contributed Main	73,656			
1999 Chemical Container Main Line extension	26,750			
Acc. Amort. @ 12/31/99 & 1999 Amort -Genesis/on line 5-5-99 (\$73,656 * .0263 * .6666)		1,291		1,291
Acc. Amort. @ 12/31/99 & 1999 Amort - Chemical Container 10/1/99 (\$ 26,750 * .0263 * .25)		176		176
Totals per Staff	190,516	28,532		4,734
Totals per Utility	100,406	1,241		1,241
Staff recommended adjustment	\$90,110	\$27,291		\$3,493

Audit Exception No. 5, contd.

Staff recommends that the utility record the following journal entry.

Account 215, Retained Earnings	\$58,577 (1)	
Account 272, Accumulated Amortization/CIAC	27,291	
Account 400, Operating Revenues	<u>7,735</u>	
Account 271, Contributions-in-Aid-of Construction		\$90,110
Account 403, Depreciation Expense (CIAC Amortization)		<u>3,493</u>
	<u>\$93,603</u>	<u>\$93,603</u>

(1) $\$74,750 + \$400 + \$175 + 550 + 175 + \$4,400 + \$1,925 - \$27,291 + \$3,493$

Audit Exception No. 6

Subject: Insurance Expense

Statement of Facts: During the 12-month period ended December 31, 1999, the utility charged \$1,084.80 of automobile premiums, applicable to nonutility vehicles, to insurance expense.

PWC was assessed an additional Workers' Compensation premium of \$1,698.00 for the May 1, 1999 through May 1, 2000, period, based on a post test year audit. This resulted in a \$1,262.01 insurance increase for the 12-month period ended December 31, 1999, based on the proration of the adjusted premium.

Additionally, an uninsured motorist refund of \$210.67 applicable to the prior period was credited to the insurance account for the 12-month period ended December 31, 1999.

In accordance with NARUC Water, Class C, Instructions, all nonutility expenses should be charged to Account 426, Miscellaneous Nonutility Expenses.

Recommendation: Audit staff recommends that the utility record the following journal entry.

Account 426, Miscellaneous Nonutility Expense	\$1,084.80	
Account 655, Insurance Expense	387.88 (1)	
Account 215, Retained Earnings	<u>225.32 (2)</u>	
Account 131, Cash		<u>\$1,698.00</u>
	<u>\$1,698.00</u>	<u>\$1,698.00</u>

(1) $\$1,262.01 + \$210.67 - \$1,084.80$

(2) $\$1,698.00 - \$1,262.01 - \$210.67$

Audit Exception No. 7

Subject: Vehicle Expense

Statement of Facts: The utility charged \$8,053.90 to vehicle expense during the 12-month period ended December 31, 1999.

The noted amount included repairs of \$830.91 to the personal vehicle of the former owner of PWC.

Additionally, the cost of \$2,662.70 for a transmission for a Ford F-150 utility truck was included.

In accordance with NARUC Water, Class C, Instructions per Account 101-341, Transportation Equipment, the cost of capital expenditures should be reflected therein.

In accordance with the same Instruction, the NARUC-designated account for the repair of the personal vehicle is Account 426, Miscellaneous Nonutility Expenses.

Recommendation: Audit staff recommends that the utility record the following journal entry.

Accounts 101-341, Transportation Equipment	\$2,662.70	
Account 426, Miscellaneous Utility Expenses	830.91	
Account 403, Depreciation Expense	73.96	
Account 675, Miscellaneous Expense (Vehicle)		\$3,493.61
Accounts 108-341, Accumulated Depreciation		73.96

Audit Exception No. 8

Subject: Phone Expense

Statement of Facts: PWC charged \$4,353.14 of phone expense to operations during the 12-month period ended December 31, 1999.

Charges of \$955.56 applicable to two cellular phones, along with the home phone of the former owner of the company, were included in the total. The following phones are no longer active for utility-related business.

(941) 676-7555	\$683.33
(941) 632-3732	232.37
(941) 696-8245	<u>39.86</u>
Total	\$955.56

Recommendation: Audit staff recommends that phone expense (Miscellaneous Expenses, Account 675) be reduced by \$955.56 and charged to Account 426, Miscellaneous Nonutility Expenses.

Audit Exception No. 9

Subject: Office Expenses

Statement of Facts: The utility charged \$8,670.22 to office expenses during the 12-month period ended December 31, 1999.

The account reflected the following billing and office software.

<u>Company</u>	<u>Date</u>	<u>Check</u>	<u>Amount</u>
Information Management Systems, Inc.	04/22/99	1166	\$623.75
Information Management Systems, Inc.	05/04/99	1182	2,020.95
Staples	06/30/99	1249	<u>551.17</u>
Total			\$3,195.87

Additionally, net proceeds of \$310.19 which were received from the closing of its American Bank & Trust account were charged to the account. The offsetting entry was a credit to Account 400, Operating Revenues.

A donation of \$190.00 to the Lake Wales Chamber of Commerce was also included in the account.

Recommendation: Audit staff recommends that software costs of \$3,195.87 be deferred to Account 186 until disposition of an appropriate amortization period can be determined by the FPSC analyst. It is also recommended that the noted entry for the bank proceeds be reversed. The journal entry is as follows:

Miscellaneous Deferred Debits, Account 186	\$3,195.87
Operating Revenues, Account 400	310.19
Miscellaneous Nonutility Expenses, Account 426	190.00
Miscellaneous Expenses (Office Expenses) Account 675	\$3,696.06 (1)

(1) \$3,195.87 + \$310.19 + \$190.00

Audit Exception No. 10

Subject: Distribution System Repairs

Statement of Facts: PWC charged \$5,078.61 to distribution system repairs (miscellaneous expense) during the 12-month period ended December 31, 1999.

The costs of a hydrant for \$795.00, a 1½" meter for \$273.82, and a 2" meter for \$584.32 purchased from Hughes Supply were included in the total for the account.

In accordance with NARUC Water, Class C, Instructions per Accounts 101-334 and 101-335, the costs of the capital expenditures should be included therein.

Recommendation: Staff recommends that the utility record the following journal entry.

Accounts 101-334, Meters & Installation	\$858.14 (1)	
Accounts 101-335, Hydrants	795.00	
Account 403, Depreciation Expense	<u>13.07</u>	
Account 675, Miscellaneous Expense (Distribution system repairs)		1653.14 (2)
Account 108, Accumulated Depreciation		<u>13.07</u>
	<u>\$1,666.21</u>	<u>\$1,666.21</u>

(1) \$584.32 + \$273.82

(2) \$858.14 + \$795.00

Audit Exception No. 11

Subject: Lawn and Grounds Expense

Statement of Facts: PWC charged \$1,945.00 for lawn and grounds expense to Account 675, Miscellaneous Expenses, during the 12-month period ended December 31, 1999.

Costs of \$1,450.00 for maintaining the grounds at the Lake Wales Country Club, where the former owner of the utility resided, were charged to utility operations.

In accordance with NARUC Water, Class C, Instructions, all nonutility expense should be charged to Account 426, Miscellaneous Nonutility Expenses.

Recommendation: The utility should be required to reduce Account 675, Miscellaneous Expenses by \$1,450.00.

Audit Exception No. 12

Subject: Purchased Power Expense

Statement of Facts: PWC charged \$7,740.41 to purchase power expense for the 12-month period ended December 31, 1999. In the above amount, the utility deducted the December 1998 amount of \$536.77 and added the December 1999 amount of \$781.02.

Recommendation: Audit staff recommends that purchased power expense be increased by \$244.25 (\$781.02 - \$536.77).

Audit Exception No. 13

Subject: Materials and Supplies

Statement of Facts: PWC charged \$3,450.71 of capital expenditures to materials and supplies during the 12-month period ended December 31, 1999.

In accordance with NARUC Water, Class C, Instructions per Account 101, Utility Plant-in-Service, "This account shall include the original cost of utility plant owned and used by the utility in providing water service."

Recommendation: PWC made the following purchases.

<u>Company</u>	<u>Description</u>	<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
Garden Grove Lawn Mower	Push mower	01/05/99	1049	\$423.99
U. S. Filter	Tapping tool machine	07/30/99	1283	<u>1,593.18</u>
Total				\$2,017.17

Audit staff recommends that utility plant-in-service be increased and materials and supplies be decreased by \$2,017.17. Also, the depreciation expense and the related reserve should be increased by \$72.56 based on Rule 25-30.140, Florida Administration Code, (F.A.C.) guideline rates.

Audit Exception No. 14

Subject: Advertising

Statement of Facts: PWC paid \$162.00, in Check No. 1333, to Cromer on September 8, 1999, as a donation to the Lake Wales Chamber of Commerce publication.

In accordance with NARUC Water, Class C, Instructions, all nonutility expenses should be charged to Account 675, Miscellaneous Nonutility Expenses.

Recommendation: Audit staff recommends that Account 426, Miscellaneous Nonutility Expenses be increased and Account 675, Miscellaneous Expense be decreased by \$162.

Audit Exception No. 15

Subject: Polk County Service Tax

Statement of Facts: On May 21, 1999, the Polk County Board of County Commissioners adopted the Polk County Service Tax Ordinance. The ordinance specifies that a 2 percent tax on gross revenues will be levied on utilities within the county effective October 1, 1999.

Recommendation: PWC, due to cash basis accounting, has only collected and remitted \$228.43, per books, during the 12-month period ended December 31, 1999.

The \$228.43 collected was charged to taxes other than income and recognized as operating revenue.

Audit staff recommends that taxes other than income and revenues be reduced by \$228.43 since this tax is shown as a separate line item on the bill. It is collected by the utility and remitted to the county. It should be accounted for below the line.

Audit Exception No. 16

Subject: Regulatory Assessment Fees (RAFs)

Statement of Facts: The utility charged the 1998 RAFs of \$8,198.19 to its 1999 operations. However, the RAFs for 1999 are \$8,325.58.

Recommendation: Audit staff recommends that Account 408, Taxes Other Than Income be increased by \$127.39 (\$8,325.58 - \$8,198.19) to reflect the RAFs of \$8,325.58 for the 12-month period ended December 31, 1999.

Audit Exception No. 17

Subject: Customer Deposits

Statement of Facts: PWC collected \$510.00 (17 customers @ \$30.00) of customer deposits during the 12-month period ended December 31, 1999.

There is no provision made for the collection of such in the company's tariff contained in Order No. PSC-98-0361-FOF-WU, issued March 5, 1998.

Recommendation: Audit staff defers to FPSC analyst for disposition.

Audit Disclosure No. 1

Subject: Transportation Expense

Statement of Facts: The utility charged \$3,819.68 to transportation expense during the 12-month period ended December 31, 1999.

Total gasoline charges of \$3,755.98 in the account were charged to company-issued MasterCards of which bills did not reflect the gallons purchased nor price per gallon.

The two utility trucks, a 1991 Ford F-150 and 1993 Ford Ranger were assigned to the operations manager and utility president, respectively.

Recommendation: According to utility officials, the following is representative, applicable to the imputation of transportation expense.

	<u>F-150</u>	<u>Ranger</u>
Average miles driven daily	60	55
Days per week	6	5
Weeks per year	52	52
Miles per gallons	12	20
Average cost per gallon for the 12-mo. period ended 12-31-99	\$1.60	\$1.60

According to the above data, the cost of fuel for the F-150 would compute to \$2,496.00 ($60 \times 6 \times 52 / 12 \times \1.60), and the cost for the Ranger would be \$1,144.00 ($55 \times 5 \times 52 / 20 \times \1.60) for a total of \$3,640.00. This would amount to a \$115.98 difference from the \$3,755.98 reflected in the account.

Audit staff defers to the FPSC engineer and analyst to ascertain the validity of the data and ultimate disposition.

Audit Disclosure No. 2

Subject: Rate Case Expense

Statement of Facts: PWC began amortizing rate case costs of \$13,420, applicable to its Polk County filing on July 1, 1996, over a 4-year period. During the 12-month period ended December 31, 1999, the utility charged Account 665, Regulatory Commission Expense for \$3,355, leaving a post 1999 test year balance of \$1,677 yet to be amortized.

The utility has supported \$11,221 of rate case costs applicable to its current rate application with the Florida Public Service Commission. The utility submitted MFRs to the FPSC reflect \$9,000.00 of rate case costs, of which \$2,250 were charged to Account 407, Amortization per the Minimum Filing Requirements (MFRs).

Recommendation: The utility has indicated that additional rate case costs are forthcoming. Therefore, audit staff has elected to defer to the FPSC analyst for the adjustment based on the final accounting for all rate case costs.

Audit Disclosure No. 3

Subject: Pro Forma Adjustments

Statement of Facts: PWC has requested FPSC consideration for 14 pro forma adjustments as shown below.

Recommendation: Audit staff has reviewed the pro forma adjustments and supporting documentation.

Audit staff defers to FPSC analyst for disposition.

Pro Forma Adjustments			
	Annualized Post Test Year <u>Operating Expense</u>	Post Test Year Capital <u>Improvement</u>	Post Test Year Annualized <u>Depreciation</u>
Pro Forma Adjustments			
Software Service Agreement	\$406 (1)		
Salary Expense	7,018 (2)		
Workers' Compensation Expense	693 (3)		
Payroll Tax Expense	1,037 (4)		
Pension Benefits Expense	6,525 (5)		
Auto Insurance Expense	1,170 (8)		
Property Insurance Expense	1,695 (9)		
Health Care Benefits Expense	7,968 (12)		
Lawn Expense	1,585 (14)		
Truck 1 Cost		\$22,165	\$3,694 (6)
Truck 2 Cost		28,102	4,684 (7)
Pump Project		100,917	5,671 (10)
Meter Change-Out Program		64,797	12,959 (11)
Water Testing Analysis (3-year)		<u>1,100</u>	<u>367</u> (13)
Total:	\$28,097	\$217,081	\$27,375

- (1) Annualized pro forma Software Service of \$406 - Test year amount of \$0 = \$406 additional expense
- (2) Annualized pro forma Salary Expense of \$85,238 - Test year amount of \$78,220 = \$7,018 additional expense
- (3) Annualized pro forma Workers' Compensation of \$3,925 - Test year amount of \$3,232 = \$693 additional expense
- (4) Annualized pro forma Payroll Tax of \$7,231 - Test year amount of \$6,194 = \$1,037 additional expense
- (5) Annualized pro forma Pension Benefits of \$6,525 - Test year amount of \$0 = \$6,525 additional expense
- (6) Annualized pro forma Truck 1 Depreciation of \$3,694 - Test year amount of \$0 = \$3,694 additional expense
- (7) Annualized pro forma Truck 2 Depreciation of \$4,684 - Test year amount of \$0 = \$4,684 additional expense
- (8) Annualized pro forma Auto Insurance of \$3,688 - Test year amount of \$2,518 = \$1,170 additional expense
- (9) Annualized pro forma Property Insurance of \$3,363 - Test year amount of \$1,668 = \$1,695 additional expense
- (10) Pump project depreciation
- (11) Meter change-out program depreciation
- (12) Annualized pro forma Health Care Insurance of \$7,968 - Test year amount of \$0 = \$7,968 additional expense.
- (13) Annualized pro forma 3-Year Water Analysis of \$1,100 - Test year of \$0 = \$1,100/3 = \$367
- (14) Annualized pro forma Lawn Expense of \$2,080 - Test year of \$495 = \$1,585 additional expense

Audit Disclosure No. 4

Subject: Acquisition Adjustment

Statement of Facts: The utility is requesting an acquisition adjustment based on the circumstances described in the attached July 21, 2000 memorandum.

Recommendation: Audit staff defers to FPSC analyst for disposition.

Audit Disclosure No. 4, contd.



*Park Water Company
25 1st Avenue North
Lake Wales, FL 33853*

July 21, 2000

To: Richard Brown, PSC Auditor
From: Anthony Staiano
Re: Request for acquisition adjustment

I, Anthony Staiano, owner of Park Water Company, request that an acquisition adjustment be made for the January 1999 purchase of the utility. I have enclosed a copy of the purchase agreement between Louis Staiano, seller, and Anthony Staiano, buyer. The purchase price for the Park Water Company stock was \$150,000. The reasons for the request of an acquisition adjustment are:

1. Park Water Company was in need of immediate upgrade in both plant as well as distribution systems.
 - A. The four Hydro Pneumatic tanks that Park Water Company used for its water storage have been patched and continue to leak. This represents significant danger if a tank were to explode.
 - B. In addition the tanks did not provide adequate water storage per DEP rules.
 - C. The tanks did not provide the chlorine contact time necessary.

2. Louis Staiano, at 82 years of age was in poor health, and underwent Kidney Dialysis three days per week. His frail condition left Park Water Company without the capacity to run the utility the way he had in the past.

3. I have been in charge of operations for three years. I have my Class C Water Operating license issued by Florida DEP. I also have a Bachelors of Business Administration from Stetson University. I am qualified and have experience in the field of water utility operation.

4. I purchased the utility on January 1, 1999 for \$150,000. Since then I have made many improvements that will ensure that Park Water Company is headed in the right direction.
 - A. New Water storage facility
 - B. New pumping station
 - C. Service Reliability Agreement with the City of Lake Wales
 - D. Touch Read Meters to ensure accuracy
 - E. Updated employee benefits package, so that we may maintain a core staff of employees with experience and proper qualifications.

Phone: (863) 638-1285

Fax: (863) 638-7441

Audit Disclosure No. 4, contd.



*Park Water Company
25 1st Avenue North
Lake Wales, FL 33853*

5. Louis Staiano passed away on April 27, 200. If I had not purchased Park Water Company in 1999, I would have serious doubts about the future of the utility.

Given the circumstances surrounding the 1999 purchase of Park Water Company, I request that an acquisition adjustment be made in this instance. Please find a copy of the purchase agreement attached. I have made 2 annual payments of \$25,000 plus interest to date as stated in the purchase agreement. The agreement calls for 6 annual payments of \$25,000 plus interest. The agreed upon purchase price was not based on plant value, but on stock value. I purchased the Park Water Company stock for \$150,000, the exact amount Louis Staiano had purchased the stock for. Thank you for considering all of the factors involved for this acquisition adjustment request.

Sincerely,

Anthony Staiano

Anthony Staiano

Phone: (863) 638-1285

Fax: (863) 638-7441

Audit Disclosure No. 5

Subject: Water Interconnection

Statement of Facts: The utility, per the appended letter, is requesting a flat rate of \$1.00 per thousand gallons be included in its tariff for the sale of water to the City of Lake Wales.

Additionally, the utility is supporting its contention applicable to the usefulness of the US 27 main extension that connects Park Water Company and the City of Lake Wales, based on Florida Department of Environment Pollution Rule 62-555.320 and other factors it deems relevant.

Recommendation: Staff defers to the FPSC engineer and analyst for disposition.

Audit Disclosure No. 5, contd.



*Park Water Company
25 1st Avenue North
Lake Wales, FL 33853*

July 20, 2000

To: Richard Brown, PSC Auditor
From: Anthony Staiano
Re: Park Water Company & City of Lake Wales Interconnection agreement.

This letter is to inform the Public Service Commission of the circumstances surrounding the installation of the 1999 US 27 Water Main Extension. This letter will also address Park Water Company's requests in regard to the following:

1. The Florida Department of Environment Protection Rule 62-555.320 states that "The auxiliary power requirements may be met by providing an interconnection to at least one other public water supply system that has sufficient reserve capacity." See Drinking Water Rules attached on pages 3 through 6.
2. The 1999 US 27 Main Line Extension was installed for the sole purpose of being utilized for a backup water supply. We extended the main with the intent to interconnect with the City of Lake Wales water system in the near future. This interconnection would bring Park Water Company into compliance with the DEP Rule 62-555.320.
3. Park Water Company financed this Water Main project with borrowed funds at an interest rate of %10 per year. It is mandatory that we make payments on this promissory note.
4. Park Water Company requests that the water main project be considered used and useful because it provides the current customers with a quality back-up water system in an emergency situation. If the interconnection is not made the alternative in the same emergency situation is to discontinue water service to our customers for hours possibly days while we install a temporary backup system.

Phone: (863) 638-1285

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Fax: (863) 638-7441

Audit Disclosure No. 5, contd.



*Park Water Company
25 1st Avenue North
Lake Wales, FL 33853*

5. I would like to request a new charge be added to the water tariff specifically for interconnections. Park Water Company will purchase water as well as sell water in emergency situations only. For simplicity, I request a flat rate water charge per thousand gallons consumed of \$1.00. Given that the interconnection is for emergency situations we don't believe that a monthly base charge and a water conservation type rates for gallonage are necessary. The water revenue that Park Water Company receives from the interconnection should remain fairly equivalent to the amount of purchased water from the interconnection.

6. The interconnection between the Park Water Company and the City of Lake Wales water system should be completed some time in 2000. Please see the attached draft of the interconnection agreement entitled "Reliability Water Service Agreement" on pages 7 through 15.

In an attempt to ensure that quality water service continues even in the most drastic situations such as a hurricane or a well running dry, Park Water Company will interconnect with a public water source that has plenty of reserve to serve our customers during an emergency. Our customers will see a negligible cost of approximately 53 cents added to their monthly bill for an assurance that they will not have disrupted water service in an emergency. It is the policy of Park Water Company to provide the best water service possible. We can continue to provide for our customers only if the Public Service Commission classifies useful plant such as the US 27 Water Main Extension as used and useful.

Anthony Staurvo

EXHIBIT I

Schedule of Water Rate Base

Florida Public Service Commission

Company: Park Water Company, Inc.
Docket No.: 991627-WU
Schedule Year Ended: 12/31/99
 Interim [] Final []
 Historic [] or Projected []

Schedule: **A-1**
 Page 1 of 1
 Preparer: Joseph Hodakowski, CPA

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/8 O&M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant In Service	873,964		873,964	A-5
2	Utility Land & Land Rights				A-5
3	Less: Non-Used & Useful Plant				A-7
4	Construction Work in Progress				-
5	Less: Accumulated Depreciation	(322,498)		(322,498)	A-9
6	Less: CIAC	(100,406)		(100,406)	A-11
7	Accumulated Amortization of CIAC	1,241		1,241	A-12
8	Acquisition Adjustments				-
9	Accum. Amort. Of Acq. Adjustments				-
10	Advances for Construction				A-14
11	Working Capital Allowance	18,910		18,910	A-15
12	Total Rate Base	<u>471,211</u>		<u>471,211</u>	

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Park Water Company, Inc.

Schedule: **B-1**

Schedule Year Ended: 12/31/99

Page 1 of 1

Interim Final

Preparer: Joseph Hodakowski, CPA

Historic or Projected

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUE	<u>190,113</u>			<u>46,875</u>	<u>236,988</u>	-
2	Operation & Maintenance	151,281				151,281	B-4
3	Depreciation, net of CIAC Amort.	13,827				13,827	B-10
4	Amortization		2,250			2,250	
5	Taxes Other Than Income	20,352	2,110			22,462	B-12
6	Provision for Income Taxes						C-1
7	OPERATING EXPENSES	<u>185,460</u>	<u>4,630</u>			<u>189,820</u>	
8	NET OPERATING INCOME	<u>4,653</u>	<u>23</u>		<u>46,875</u>	<u>47,168</u>	
9	RATE BASE	<u>471,211</u>				<u>471,611</u>	
10	RATE OF RETURN	<u>0.0098745</u>				<u>0.1001</u>	

**Schedule of Requested Cost of Capital
Beginning and End of Year Average**

Florida Public Service Commission

Company: Park Water Company, Inc.

Schedule: **D-1**

Docket No.: 991627-WU

Page 1 of 1

Test Year Ended:

Preparer: Joseph Hodakowski, CPA

Schedule Year Ended: 12/31/99

Historic [] or Projected []

Subsidiary [] or Consolidated []

Explanation: Provide a schedule, which calculates the requested Cost of Capital on a beginning and end of year average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

Line No.	(1) Class of Capital	(2) Reconciled To Request Rate Base	(3) Ratio	(4) Cost Rate	(5) Weighted Cost
1	Long-Term Debt	426,680	90.55	0.1	9.055
2	Short-Term Debt				
3	Preferred Stock				
4	Customer Deposits				
5	Common Equity	44,531	9.45	0.1012	0.956
6	Tax Credits - Zero Cost				
7	Tax Credits - Wtd. Cost				
8	Accum. Deferred Income Taxes				
9	Other (Explain)				
10	Total	<u>471,211</u>	<u>100.00%</u>		<u>10.01</u>

Supporting Schedules: D-2

Recap Schedules: A-1,A-2