

State of Florida



Public Service Commission

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COMMISSION
CLERK

DATE: April 26, 2011
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CJP*
RE: Docket No.: 110042-WS
Company Name: Pine Ridge Management Corporation
Company Code: WS895
Audit Purpose: Staff-Assisted Rate Case
Audit Control No: 11-052-1-1

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 were no confidential work papers associated with this audit.

CJP/pld

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

02852 APR 26 =

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tallahassee District Office

Auditor's Report

Pine Ridge Management Corporation
Staff-Assisted Rate Case

Twelve Months Ended December 31, 2010

Docket No. 110042-WS
Audit Control No. 11-052-1-1
April 22, 2011

Handwritten signature of Debra M. Dobiac in cursive.

Debra M. Dobiac
Audit Manager

Handwritten signature of Drew Von Euw in cursive.

Drew Von Euw
Audit Staff

Handwritten signature of Lynn M. Deamer in cursive.

Lynn M. Deamer
Reviewer

DOCUMENT NUMBER-DATE
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Purpose

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 February 21, 2011. We have applied these procedures to prepare the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure as of December 31, 2010 for Pine Ridge Management Corporation. The attached schedules were prepared by us as part of our work in Docket No. 110042-WS.

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

Objectives and Procedures

General

Definitions

The test year used in this proceeding is the twelve months ended December 31, 2010.

The Utility refers to Pine Ridge Management Corporation (PRMC) which includes the water and wastewater plants and a mobile home park. PRMC is owned 100 % by Virginia L. Gadsden.

The Utility's tax data is filed on the Virginia L. Gadsden Family Limited Partnership's return.

Utility Books and Records

Objectives: The objective is 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: We noted that the Utility's books and records are not an electronic system, but consist of billing records, invoices, bank statements, deposit slips, and cancelled checks. In addition, the Utility's 2010 Annual Report, the 2010 Regulatory Assessment Fees (RAF), and compiled 2010 Financial Statements had not been completed prior to or during our audit. The effect on the general ledger noted throughout this report is our audited balances. Audit Finding 1 discusses our findings.

Rate Base

Utility Plant in Service

Objectives: The objectives are to determine that property exists and is owned by the Utility; that additions to utility plant in service (UPIS) are authentic, recorded at original cost, and properly classified in compliance with Commission Rules and the NARUC USOA; and that proper retirements of UPIS were made when a replacement item was put into service.

Procedures: The Utility facilities were in existence and operating when purchased by Pine Ridge Management Corporation on January 16, 1990. Commission Order No. PSC-05-1116-PAA-WS¹ approved the Utility's application for certification and rates were set. However, rate base was not established in this Order, and we were not able to discern beginning balances from the documentation provided. Therefore, we were unable to determine a balance for UPIS as of December 31, 2010.

¹ See Order No. PSC-05-1116-PAA-WS, issued November 7, 2005, Docket No. 050061-WS, In Re: Application for grandfather certificates to operate water and wastewater facilities in Okeechobee County by Pine Ridge Management Corporation.

Land and Land Rights

Objectives: The objectives are 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: The Virginia L. Gadsden Family Limited Partnership owns PRMC which consists of a mobile home park and the water and wastewater plants. We were not able to discern a value for land dedicated to utility service.

Contributions-in-Aid-of-Construction

Objectives: The objective is to determine that utility contributions-in-aid-of-construction (CIAC) balances are properly stated and are reflective of the service availability charges authorized in the Utility's Commission approved tariffs.

Procedures: The Utility does not have any documentation reflecting CIAC balances and no service availability charges are authorized in the Utility's Commission approved tariffs.

Accumulated Depreciation

Objectives: The objectives are to determine that accruals to accumulated depreciation are properly recorded in compliance with Commission Rules and the NARUC USOA and to verify that depreciation accruals are calculated using the Commission's authorized rates and that retirements are properly recorded.

Procedures: Since beginning balances had not been established, we were not able to calculate an accumulated depreciation balance as of December 31, 2010.

Accumulated Amortization of CIAC

Objectives: The objectives are 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: Since CIAC had not been established, there is no accumulated amortization of CIAC balance as of December 31, 2010.

Working Capital

Objectives: The objective is 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 for the test year using one-eighth of operation and maintenance expense pursuant to Rule 25-30.433(2), Florida Administrative Code (F.A.C.).

Net Operating Income

Operating Revenue

Objectives: The objectives are to verify that the Utility is billing the Commission approved tariff rates for both water and wastewater and to determine that revenue earned from utility property during the test year is 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 test year from the Utility's billing ledgers. Audit Finding 2 discusses the revenue for the test year.

Operations and Maintenance Expense

Objectives: The objectives are to determine that operation and maintenance (O&M) expenses are classified according to Commission Rules and the NARUC USOA and that expenditures are recorded in the proper period and are appropriate for regulatory policy.

Procedures: We compiled water and wastewater O&M expense schedules for the test year from the Utility's invoices, insurance policies, and cancelled checks. Audit Finding 3 discusses the O&M expense for the test year.

Depreciation and Amortization

Objectives: The objective is 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: Since we were not able to determine a UPIS balance and there is no CIAC balance, depreciation and amortization expense was not calculated.

Taxes Other than Income

Objectives: The objective is to determine the appropriate amounts for taxes other than income (TOTI) for the test year.

Procedures: We compiled water and wastewater TOTI schedules from the Utility's property tax invoices and the audited revenue balances. Audit Finding 4 discusses TOTI for the test year.

Capital Structure

Objectives: The objective is 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 in compliance with Commission rules.

Procedures: We compiled a Capital Structure Schedule from the Utility's debt instruments, the 2009 Annual Report, and the audited net operating income for the test year. The Utility does not have any customer deposits. Audit Finding 5 discusses the Capital Structure.

Audit Findings

Finding 1: Books and Records

Audit Analysis: Rule 25-30.115, F.A.C., requires utilities to maintain their books and records in conformity with the NARUC USOA. The Utility's books and records are not maintained in accordance with the Rule.

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.

In addition, there were no supporting schedules for UPIS, accumulated depreciation, and depreciation expense. We were able to determine revenue from the billing records and operation and maintenance expenses from invoices, insurance policies, and cancelled checks. We were able to determine capital structure from debt instruments, articles of incorporation, the 2009 annual report, and the audited net operating income. The Commission should require the Utility to maintain its books and records in compliance with the NARUC USOA.

Effect on the General Ledger: N/A

Finding 2: Operating Revenue

Audit Analysis: We noted that the Utility reads its meters for residential customers twice per year and records the meter reading on individual customer cards. Then, the customers are mailed postcards noting the present reading, the previous reading, the amount used, the gallonage charge, and the amount due. We tested a judgmental sample of the customer cards and recalculated the amount due using the Commission approved tariff. The general service customers do not have meters.

Both the residential and general service customers send in monthly payments for the base facility charge, however, payments can be inconsistent. The audit staff compiled schedules for water and wastewater revenue from the Utility's billing ledgers and traced the amounts to the Utility's deposit slips as well as to the Commission authorized tariffs. The following schedules illustrate our audited balances.

Water:

<u>Acct. No.</u>	<u>Description</u>	<u>Test Year Amount per Utility 12/31/2010</u>	<u>Audit Adjustment</u>	<u>Test Year Amount per Audit 12/31/2010</u>
461.1	Residential-base charge	-	7,038	7,038
461.1	Residential-gallonage	-	8,987	8,987
461.2	Commercial-base charge	-	525	525
	Total	-	\$ 16,550	\$ 16,550

Wastewater:

<u>Acct. No.</u>	<u>Description</u>	<u>Test Year Amount per Utility 12/31/2010</u>	<u>Audit Adjustment</u>	<u>Test Year Amount per Audit 12/31/2010</u>
521.1	Residential-base charge	-	55,285	55,285
521.2	Commercial-base charge	-	1,567	1,567
	Total	-	\$ 56,852	\$ 56,852

Effect on the General Ledger: The audit staff determined Water and Wastewater Revenue to be \$16,550 and \$56,852, respectively, for the test year.

Finding 3: Operations and Maintenance Expense

Audit Analysis: Since the Utility maintains no general ledger, the audit staff determined operation and maintenance (O&M) expenses for water and wastewater based on paid invoices, insurance policies, and cancelled checks. The following schedules illustrate our audited balances.

Water:

Acct	Description	Test Year Amount Per Utility 12/31/2010	Variance	Test Year Amount Per Audit 12/31/2010
601	Salaries & Wages – Emp	\$ -	\$ -	\$ -
603	Salaries & Wages – Officers	-	-	-
604	Emp Pensions & Benefits	-	-	-
610	Purchased Water	-	-	-
615	Purchased Power	-	1,738	1,738
616	Fuel for Purchased Power	-	-	-
618	Chemicals	-	3,694	3,694
620	Materials and Supplies	-	532	532
631	Contractual Services – Professional	-	4,975	4,975
635	Contractual Services – Testing	-	1,932	1,932
636	Contractual Services – Other	-	24,983	24,983
640	Rents	-	-	-
650	Transportation Expense	-	1,067	1,067
655	Insurance	-	37	37
665	Reg. Comm. Exp. Rate Case Amort.	-	-	-
670	Bad Debt Expense	-	-	-
675	Miscellaneous Expense	-	2,099	2,099
Total:		<u>\$ -</u>	<u>\$ 41,057</u>	<u>\$ 41,057</u>

Wastewater:

Acct	Description	Test Year Amount Per Utility 12/31/2010	Variance	Test Year Amount Per Audit 12/31/2010
601	Salaries & Wages – Emp	\$ -	\$ -	\$ -
603	Salaries & Wages – Officers	-	-	-
604	Emp Pensions & Benefits	-	-	-
610	Purchased Water	-	-	-
615	Purchased Power	-	2,078	2,078
616	Fuel for Purchased Power	-	-	-
618	Chemicals	-	5,891	5,891
620	Materials and Supplies	-	425	425
631	Contractual Services – Professional	-	2,825	2,825
635	Contractual Services – Testing	-	4,285	4,285
636	Contractual Services – Other	-	38,732	38,732
640	Rents	-	255	255
650	Transportation Expense	-	1,067	1,067
655	Insurance	-	168	168
665	Reg. Comm. Exp. Rate Case Amort.	-	-	-
670	Bad Debt Expense	-	-	-
675	Miscellaneous Expense	-	1,445	1,445
Total:		<u>\$ -</u>	<u>\$ 57,171</u>	<u>\$ 57,171</u>

Effect on the General Ledger: The audit staff determined Water and Wastewater O&M Expenses to be \$41,085 and \$57,171, respectively, for the test year.

Finding 4: Taxes Other than Income

Audit Analysis: We reviewed the components for TOTI and determined the following.

Water:

Description	Test Year Amount per Utility 12/31/2010	Audit Adjustments	Test Year Amount per Audit 12/31/2010
Regulatory Assessment Fees (RAFs)	\$-	\$745	\$745
Real Estate & Personal Property Taxes	-	1,072	1,072
	\$-	\$1,817	\$1,817

Wastewater:

Description	Test Year Amount per Utility 12/31/2010	Audit Adjustments	Test Year Amount per Audit 12/31/2010
Regulatory Assessment Fees (RAFs)	\$-	\$2,558	\$2,558
Real Estate & Personal Property Taxes	-	1,202	1,202
Total	\$-	\$3,760	\$3,760

The Utility pays a property tax bill for the water plant and pays a property tax bill for the mobile home park. The bill for the mobile home park includes the acreage for the wastewater plant. The property tax amount for the wastewater plant was determined using the following calculation.

Size of property being taxed: 6.706 acres

Size of wastewater plant: .6955 acres

Percentage of tax applicable to wastewater utility: $.6955 / 6.706 = 10.37\%$

Total property tax: \$11,584.38

Property tax applicable to wastewater plant: $\$11,584 * 10.37\% = \$1,202$

Effect on the General Ledger: The audit staff determined Water and Wastewater TOTI to be \$1,817 and \$3,760, respectively, for the test year.

Finding 5: Capital Structure

Audit Analysis: The Virginia L. Gadsden Family Limited Partnership entered into a mortgage for \$100,000 on April 15, 2005 utilizing the mobile home park and the water and wastewater plants as collateral. The note was due April 15, 2010. However, the note was refinanced with a decreased interest rate and extended the due date to April 15, 2015.

In addition, the Utility's 2010 Annual Report, the 2010 Regulatory Assessment Fees (RAF), and compiled 2010 Financial Statements for the Virginia L. Gadsden Family Limited Partnership and Pine Ridge Management Corporation had not been completed prior to or during our audit.

See Exhibit 5 for the combined Capital Structure schedule.

Effect on the General Ledger: N/A

Exhibits

Exhibit 1: Water Rate Base

**PINE RIDGE MANAGEMENT CORPORATION
SCHEDULE OF WATER RATE BASE
AVERAGE FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010**

Description	Balance per Utility 12/31/2010	Audit Adjustments	Balance per Audit 12/31/2010	Simple Avg Balance Per Audit
Utility Plant in Service	\$ -	\$ -	\$ -	\$ -
Land	-	-	-	-
Accumulated Depreciation	-	-	-	-
Contributions in Aid of Construction	-	-	-	-
Accumulated Amortization of CIAC	-	-	-	-
Working Capital Allowance:	-	5,136	5,132	2,566
RATE BASE	\$ -	\$ 5,136	\$ 5,132	\$ 2,566

Exhibit 2: Wastewater Rate Base

**PINE RIDGE MANAGEMENT CORPORATION
 SCHEDULE OF WASTEWATER RATE BASE
 AVERAGE FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010**

Description	Balance per Utility 12/31/2010	Audit Adjustments	Balance per Audit 12/31/2010	Average Balance Per Audit
Utility Plant in Service	\$ -	\$ -	\$ -	\$ -
Land	-	-	-	-
Accumulated Depreciation	-	-	-	-
Contributions in Aid of Construction	-	-	-	-
Accumulated Amortization of CIAC	-	-	-	-
Working Capital Allowance:	-	7,146	7,146	3,573
RATE BASE	\$ -	\$ 7,146	\$ 7,146	\$ 3,573

Exhibit 3: Water Net Operating Income

PINE RIDGE MANAGEMENT CORPORATION
 SCHEDULE OF WATER NET OPERATING INCOME
 TWELVE MONTHS ENDED DECEMBER 31, 2010

Description	Test Year Amount per Utility 12/31/2010	Audit Adjustments	Audit Finding	Test Year Amount per Audit 12/31/2010
Operating Revenues	\$ -	\$ 16,550	2	\$ 16,550
Operation & Maintenance Expenses	-	41,057	3	41,057
Depreciation and Amortization Expense	-	-	N/A	-
Taxes Other than Income	-	1,817	4	1,817
Income Tax Expense	-	-	N/A	-
Total Operating Expenses:	\$ -	\$ 42,874		\$ 42,874
Net Operating Income (Loss)	\$ -	\$ (26,324)		\$ (26,324)

Exhibit 4: Wastewater Net Operating Income

PINE RIDGE MANAGEMENT CORPORATION
 SCHEDULE OF WASTEWATER NET OPERATING INCOME
 TWELVE MONTHS ENDED DECEMBER 31, 2010

Description	Test Year Amount per Utility 12/31/2010	Audit Adjustments	Audit Finding	Test Year Amount per Audit 12/31/2010
Operating Revenues	\$ -	\$ 56,852	2	\$ 56,852
Operation & Maintenance Expenses	-	57,171	3	57,171
Depreciation and Amortization Expense	-	-	N/A	-
Taxes Other than Income	-	3,760	4	3,760
Income Tax Expense	-	-	N/A	-
Total Operating Expenses:	\$ -	\$ 60,931		\$ 60,931
Net Operating Income (Loss)	\$ -	\$ (4,079)		\$ (4,079)

Exhibit 5: Capital Structure

**PINE RIDGE MANAGEMENT CORPORATION
WEIGHTED COST OF CAPITAL
TWELVE MONTHS ENDED DECEMBER 31, 2010**

Description	Balance per Utility 12/31/2010	Audit Adjustments (C)	Balance per Audit 12/31/2010	Ratio	Cost Rate	Weighted Cost
Long-term Debt	70,710	-	70,710	22.38%	7.000%	1.57%
Common Equity (A) (B)	275,680	(30,430)	245,250	77.62%	9.207%	7.15%
TOTAL CAPITAL	\$ 346,390	\$ (30,430)	\$ 315,960	100.00%		8.71%

As per order PSC-10-0401-PAA-WS, issued June 18, 2010:

Leverage Formula: Return on Common Equity = 7.46% + 1.356/Equity Ratio
 Where Equity Ratio = Common Equity/(Common Equity + Preferred Equity + Long-Term
 and Short-Term Debt)
 Range: 8.82% @ 100% equity to 10.85% @ 40% equity

- (A) The Utility's common equity balance came from the 2009 annual report since the 2010 annual report was not completed as of the date of this report. The 2009 balance was not audited.
- (B) According to the Articles of Incorporation of Pine Ridge Management Corporation, 1,000 shares at \$1.00/share were authorized and issued to Virginia L. Gadsden, Herself.
- (C) Net Operating Income (Loss) as calculated by the auditor.