

MEMORANDUM

May 10, 1996

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *W*

RE: DOCKET NO. ~~960133-WU~~ -- BUCCANEER WATER SERVICE
STAFF-ASSISTED RATE CASE - PERIOD ENDED DECEMBER 31, 1995
AUDIT CONTROL NO. 96-051-4-1

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 two diskettes. The diskettes may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are confidential working papers associated with this audit.

Please forward a complete copy of this report to:

Buccaneer Water Service
Bob Custer
2210 North Tamiami Trail
North Ft. Myers, FL 33903-2871

DNV/sp
Attachment

cc: Chairman Clark
Commissioner Deason
Commissioner Johnson
Commissioner Kiesling
Commissioner Garcia
Mary Andrews Bane, Deputy Executive Director/Technical
Legal Services
Division of Auditing and Financial Analysis (Devlin/Causseaux/
File Folder)
Division of Water and Wastewater (Okome)
Miami District Office (Welch)

Research and Regulatory Review (Harvey)
Office of Public Counsel

DOCUMENT NUMBER-DATE

05387 MAY 13 1996

FPSC-RECORDS/REPORTING

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

12 MONTHS ENDING DECEMBER 31, 1995

Field Work Completed

April 30, 1996

BUCCANEER WATER COMPANY

Ft. Myers, Florida

Staff Assisted Rate Case

Docket 960133-WU

Audit Control Number 96-051-4-1

Gabriela Leon

**Gabriela Leon
Regulatory Analyst**

Kathy Welch

**Kathy Welch
District Audit Supervisor
Miami**

FINANCIAL ANALYSIS DIV.

MAY 13 1996

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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I. EXECUTIVE SUMMARY

Audit Purpose: We have applied the procedures described in Section II of this report to prepare proposed schedules of Rate Base, Net Operating Income, and Capital Structure for the twelve month period ending December 31, 1995 for Buccaneer Water Company's Petition for a staff assisted rate case, FPSC Docket 960133-WU.

Scope Limitation: The exit conference was held May 7, 1996. This report is based on confidential information which is separately filed with the Commission Clerk.

Disclaim Public Use: This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance to their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

II. AUDIT SCOPE:

The opinions contained in this report are based on the audit work described below. When used in this report COMPILED and EXAMINED means that audit work includes:

EXAMINED: Means that the audit staff reconciled exhibit amounts with the general ledger; traced general ledger account balances to subsidiary ledgers; applied selective analytical review procedures; tested account balances to the extent further described; and disclosed any error, or inconsistency observed.

RATE BASE: Examined Utility Plant and Contributions In Aid of Construction account balances from July 1, 1994 through December 31, 1995; reconciled beginning Plant and CIAC from FPSC Order 95-0623-FOF-WU to the general ledger. Looked at all Plant invoices since the last transfer audit. Recalculated Accumulated Depreciation and Accumulated Amortization of CIAC and reconciled to the Company's booked amount.

NET OPERATING INCOME: Recalculated utility revenues using the actual meter readings and performed a billing analysis. Examined Operating and Maintenance Expenses. Looked at all expense invoices for the twelve month period ending December 31, 1995.

CAPITAL STRUCTURE: Prepared Cost of Capital using the parent company's debt and equity.

III. AUDIT EXCEPTIONS

AUDIT EXCEPTION NO. 1

SUBJECT: PLANT

STATEMENT OF FACT: The plant balance per the last Order PSC-95-0623-FOF-WU was \$280,168.02. The Company was able to substantiate additions of \$7,622 and retirements of \$4,373. This would provide a Plant balance of \$283,417.02. The Company's balance per books is \$401,915. This is a difference of \$118,497.98. A portion of this difference is due to the Company not posting the \$142,917 adjustment from the order relating to expensing lines. The remainder of the difference is due to the beginning balance per books from the order being different than the books.

OPINION: Staff believes the correct plant balance should be \$283,417.02.

280,168.02	Per Order PSC-95-0623-FOF-WU
7,622.00	Additions per Company
(4,373.00)	Retirement per Company
283,417.02	
401,915.00	Per Company
118,497.98	Difference

We disagree with the Company's contention that the costs expensed in the last order were incorrect. We again looked at these costs. They did not appear to be related to any large project or an organized plan to improve the system, but were all small, immaterial line repairs.

RECOMMENDATION: The Plant should be reduced by \$118,497.00.

AUDIT EXCEPTION NO. 2

SUBJECT: ACCUMULATED DEPRECIATION

STATEMENT OF FACT: Staff recomputed accumulated depreciation and found that it did not tie to the booked amount of \$99,272 because the Company did not use the correct beginning plant balance per Order FPSC-95-0623-FOF-WU.

OPINION: Staff calculated accumulated depreciation to be \$132,688.98. See the calculation on the following page.

RECOMMENDATION: Accumulated Depreciation should be increased by \$33,416.98 and depreciation expense decreased by \$2,717.04.

SCHEDULE OF STAFF'S CALCULATION OF ACCUMULATED DEPRECIATION

	Plant per prior dep. schedule	Rate Per dep. rule	Dep. 6 months 1994	additions 1995	Dep. beg. balance 1995	Dep. additions 1995
Meters	\$55,916.35	0.058824	\$1,644.60	\$448.00	\$3,289.20	\$13.18
Transmission & Mains	\$223,273.49	0.026316	\$2,937.80	\$2,800.00	\$5,875.60	\$36.84
Transportation Equip.	\$1,087.00	0.18667	\$90.59		\$181.17	
	<u>\$280,276.84</u>		<u>\$4,672.98</u>	<u>\$3,248.00</u>	<u>\$9,345.96</u>	<u>\$50.02</u>
Per books	<u>\$280,168.02</u>					
difference—immaterial	<u>\$108.82</u>					

ACCUMULATED DEPRECIATION

Beginning Balance	\$122,993.00
6 Months depreciation 1994	\$4,672.99
1995 depreciation (\$9,345.96+\$50.02)	\$9,395.98
Retirements	<u>(\$4,373.00)</u>
Per Staff	\$132,688.97
Per Company	<u>\$99,272.00</u>
	<u>\$33,416.97</u>

DEPRECIATION EXPENSE

Per staff	\$9,345.96
Per books	<u>\$12,063.00</u>
	<u>(\$2,717.04)</u>

AUDIT EXCEPTION NO. 3

SUBJECT: ACCUMULATED AMORTIZATION OF CIAC

STATEMENT OF FACT: The staff's recalculation of Amortization of CIAC did not tie to the Company's booked amount.

OPINION: Accumulated Amortization of CIAC should be \$100,096.49. See staff's calculation on the following page.

RECOMMENDATION: Accumulated Amortization of CIAC should be increased by \$3,458.49 and amortization expense increased by \$609.13.

AMORTIZATION OF CIAC

	BEG. BALANCE	COMPOSITE RATE	6 months 1994 AMTZ.	ADDITIONS 1995	Amtz. of 1995 Beg. Balance	Amtz. of 1995 additions
PER ORDER	\$172,269.00	0.03315	\$2,855.36	\$990.00	\$5,710.72	\$16.41
PSC-95-0623-FOF-WU						

ACCUMULATED AMORTIZATION OF CIAC

BEGINNING BALANCE PER ORDER	\$91,514.00
1994 AMORTIZATION OF CIAC	\$2,855.36
1995 AMORTIZATION OF CIAC	\$5,727.13
	<u>\$100,096.49</u>
BOOKED ACC. AMTZ. OF CIAC	<u>\$96,638.00</u>
DIFFERENCE	<u>\$3,458.49</u>

AMORTIZATION EXPENSE

Per staff	\$5,727.13
Per books	\$5,118.00
	<u>609.13</u>

CALCULATION OF THE COMPOSITE RATE

DEPRECIATION EXPENSE	\$9,395.99	
PLANT	\$283,417.00	3.31525%

AUDIT EXCEPTION NO. 4

SUBJECT: LEGAL FEES

STATEMENT OF FACT: The Company did not record legal fees related to expenses for index and pass through charges in the amount of \$247.00. These fees were paid by Colonies of Margate.

OPINION: Legal fees expense should be increased by \$247.00.

AUDIT EXCEPTION NO. 5

SUBJECT: PROFESSIONAL FEES

STATEMENT OF FACT: The Company booked \$369.30 for an invoice paid to Cronin, Jackson, and Wilson, an accounting firm, for rate case expenses in account 6445-10 "Professional fees".

OPINION: These expenses should have been booked to account 186, Deferred Rate Case Expenses. According to the Digest of Regulatory Philosophy they should be amortized over 4 years.

RECOMMENDATION: Professional fees expense should be reduced by \$276.98, and Deferred Rate Case Expense increased by \$276.98.

IV. AUDIT DISCLOSURES

AUDIT DISCLOSURE NO. 1

SUBJECT: MANAGEMENT FEE

STATEMENT OF FACT: The Company provided a schedule of the calculation of the management fee in the amount of \$9,495.00 and it did not tie to the Company's booked amount of \$5,437.00.

OPINION: Staff recalculated the \$9,495.00 and found this amount to be reasonable therefore the Management fee account should be increased by \$4,058.00.

AUDIT DISCLOSURE NO. 2

SUBJECT: REVENUE PROFORMA

STATEMENT OF FACT: The billing reports of the company could not be reconciled to other company reports. In addition, not all customers were being billed. Therefore, staff recomputed revenues for future periods using actual meter reading usages times the most current rates. Staff's recalculation of revenues totaled \$174,222.57. The booked amount was \$108,736.00. Staff also calculated the regulatory assessment fee based on 4.5% of the proforma revenue. This amounts to \$7,840.02. The company booked \$4,894.00.

OPINION: For the staff's recalculation of revenues see the following page.

RECOMMENDATION: Revenues should be increased by \$65,486.57 and taxes other than income increased by \$2,946.02.

SCHEDULE OF THE STAFF'S CALCULATION OF REVENUES

RESIDENTIAL REVENUES

Meter Size	Cumulative Bills			(000's)	Rate Per Tariff	Total based on gallons	Total Revenues
		Base Facility Rate Per Tariff	Base Facility based on # of bills	Cumulative Gallons Used			
5/8 * 3/4*	11631	\$3.77	\$43,848.87	29,023	\$3.96	\$114,931.08	\$158,779.95

GENERAL SERVICE

Meter Size	Cumulative Bills			(000's)	Rate Per Tariff	Total based on gallons	Total Revenues
		Base Facility Rate Per Tariff	Base Facility based on # of bills	Cumulative Gallons Used			
5/8 * 3/4*	66	\$3.77	\$248.82	262	\$3.96	\$1,037.52	\$1,286.34
1"	36	\$9.44	\$339.84	3059	\$3.96	\$12,113.64	\$12,453.48
3"	12	\$60.39	\$724.68	247	\$3.96	\$978.12	\$1,702.80
							<u>\$15,442.62</u>

Per Staff Revenues	\$174,222.57
Per Company	<u>\$108,736.00</u>
Adjustment	<u>\$65,486.57</u>

AUDIT DISCLOSURE NO. 3

SUBJECT: BASIC PAY-CLERICAL

STATEMENT OF FACT: The company provided budgeted figures for their clerical person at the park based on current salary levels of \$14,830.40 (\$7.13 hr.*40*52). According to the Company one half of her time relates to the water company. The Company has booked \$9,564.80 to account 6110-10 "Basic Pay-Clerical".

OPINION: Staff calculated the salary to be \$7,415.20 using 50% of the company's budget. Tax on this amount is \$567.26 for a total payroll amount of \$7,982.46.

RECOMMENDATION: Account 6110-10 should be reduced by \$1,582.34 = (\$9,564.80 -\$7,982.46).

AUDIT DISCLOSURE NO. 4

SUBJECT: BASIC-PAY- MAINTENANCE

STATEMENT OF FACT: The company has charged a full time salary to account 6120-10 "Basic Pay-Maintenance", for an employee's whose responsibility includes reading the meters, changing meters, handling customer complaints, and repairing water lines.

OPINION: Audit staff questions whether having a full time person to perform these functions is excessive since this is only a water resale operation and the company only maintains a distribution system. The staff engineer, Stan Rieger, should review the necessity for a full time maintenance man and make a final determination.

V. STAFF EXHIBITS

SCHEDULE OF RATE BASE

DESCRIPTION	12/31/94	Staff Adjustments	STAFF ADJUSTED 1994	12/31/95	STAFF ADJUSTMENTS	STAFF ADJUSTED 1995	AVERAGE
PLANT IN SERVICE	\$382,746.00	(\$102,577.98)	\$280,168.02	\$401,913.00	(\$118,497.00)	\$283,416.00	\$261,792.01
ACCUMULATED DEPRECIATION	(\$113,557.00)	(\$14,108.99)	(\$127,665.99)	(\$99,272.00)	(\$33,416.98)	(\$132,688.98)	(\$130,177.49)
CONTRIBUTION IN AID OF CONSTRUCTION	\$0.00	(\$172,269.00)	(\$172,269.00)	(\$173,149.00)	\$0.00	(\$173,149.00)	(\$172,709.00)
AMORTIZATION OF CIAC	\$0.00	\$94,369.36	\$94,369.36	\$96,638.00	\$3,458.49	\$100,096.49	\$97,232.93
WORKING CAPITAL							\$21,713.32
RATE BASE	<u>\$269,189.00</u>	<u>(\$194,586.61)</u>	<u>\$74,602.39</u>	<u>\$226,130.00</u>	<u>(\$148,455.49)</u>	<u>\$77,674.51</u>	<u>\$97,851.76</u>

Calculation of Working Capital

\$173,706.52 OPERATING AND MAINTENANCE EXPENSES
 0.125 1/8 OF O & M

\$21,713.32 Staff recalculation of Working Capital
 based on adjusted O & M expenses

SCHEDULE OF NET OPERATING INCOME

	Amount Per Company	Staff Adjustments	Adjusted Balance
Water Revenue	\$108,736.00	\$65,486.57	\$174,222.57
Basic Pay--Clerical	\$9,564.80	(\$1,582.34)	\$7,982.46
Basic Pay--Maintenance	\$19,083.00		\$19,083.00
Maintenance Supplies	\$10.00		\$10.00
R & M Misc. Exp.			
Water Sampling	\$60.00		\$60.00
Water Line Repairs	\$1,113.00		\$1,113.00
Purchased Water	\$133,972.00		\$133,972.00
Telephone Expense	\$10.00		\$10.00
Management Fees	\$5,437.00	\$4,058.00	\$9,495.00
EGL Human Resources/Ins.	\$28.00		\$28.00
Professional fees	\$1,139.00	(\$276.94)	\$862.06
Legal Fees	\$844.00	\$247.00	\$1,091.00
	<u>\$171,260.80</u>		<u>\$173,706.52</u>
Taxes other than income			
Regulatory assessment fee	\$4,894.00	\$2,946.02	\$7,840.02
Depreciation Water	\$12,063.00	(\$2,717.04)	\$9,345.96
Amortization of CIAC	(\$5,118.00)	(\$609.13)	(\$5,727.13)
	<u>\$11,839.00</u>		<u>\$11,458.85</u>
NET OPERATING INCOME	<u>(\$74,363.80)</u>		<u>(\$10,942.80)</u>

COST OF CAPITAL – MANUFACTURED HOME COMMUNITIES, INC.

COMPONENTS	1995	1994	AVERAGE	WEIGHTED COST	COST RATE	WEIGHTED COST RATE
AMOUNTS IN THOUSANDS						
LONG TERM DEBT						
Mortgage notes payable – A	100,000	100,000	100,000	45.60%	6.9875%	3.1860%
First Mortgage loan	8,767	8,893	8,830	4.03%	7.4000%	0.2979%
Purchase money note	1,516	1,516	1,516	0.69%	7.3800%	0.0510%
First Mortgage loan	24,859	25,137	24,998	11.40%	7.4800%	0.8526%
First Mortgage loan	63,924	64,724	64,324	29.33%	8.0000%	2.3463%
Line of Credit – B	12,900	26,400	19,650	8.96%	7.9375%	0.7112%
LONG TERM DEBT	211,966	226,670	219,318	100.00%		7.45%
LONG TERM DEBT	211,966	226,670	219,318	44.93%	7.45%	3.35%
EQUITY – C	263,065	274,652	268,859	55.07%	11.10%	6.11%
CUSTOMER DEPOSITS	0	0	0	0.00%		0.00%
DEFERRED TAXES	0	0	0	0.00%		0.00%
	475,031	501,322	488,177	100.00%		9.46%

NOTE A – \$100 MILLION MTG LOAN IS LIBOR PLUS 1.05% OR 6.9875
LIBOR – 5.9375

NOTE B – LINE OF CREDIT IS LIBOR PLUS 2.00% – OR 7.9375

NOTE C – TOTAL STOCKHOLDERS EQUITY LESS EMPLOYEE NOTES
RATE – PER ORDER PSC950982F0FWS – 8/10/95

$$9.05\% + 1.131/\text{EQUITY RATIO } (.5507) = 11.10375$$

STAFF'S ADJUSTMENTS

E-1

	DEBIT	CREDIT
DUE FROM/TO MHC	\$118,497.00	
PLANT		\$118,497.00

Reduce Plant for the difference between staff's calculation and what the company booked. See audit exception No. 1.

E-2

RETAINED EARNINGS	\$36,134.02	
ACCUMULATED DEPRECIATION		\$33,418.98
DEPRECIATION EXPENSE		\$2,717.04

Increase Accumulated Depreciation and depreciation expense for the difference between staff's calculation and the Company's booked amount. See audit exception No. 2.

E-3

ACCUMULATED AMORTIZATION OF CIAC	\$3,458.49	
AMORTIZATION EXPENSE		\$609.13
RETAINED EARNINGS		\$2,849.36

Increase Accumulated Amortization of CIAC, and Amortization expense for the difference between staff's calculation and booked amount. See audit exception No. 3.

E-4

LEGAL FEES	\$247.00	
DUE TO COLONIES		\$247.00

Increase legal fee expense for index and pass thru charges paid by Colonies and not charged to Buccaneer. See audit exception No. 4.

E-5

DEFERRED RATE CASE EXPENSES	\$276.94	
PROFESSIONAL FEES		\$276.94

Increase Deferred Rate Case Expenses and reduce professional fees for unamortized rate case expense. See exception #5.

A-1 PROFORMA ADJUSTMENT

Management Fee	\$4,058.00	
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Increase management fee for the difference between the booked amount and the Company's recalculated amount. See Audit Disclosure No. 1.

A-2 REVENUE PROFORMA

Taxes other than income	\$2,946.00	
Revenues		\$65,486.57

Increase revenue and taxes other than income for the difference between staff's calculation and booked amount. See Audit Disclosure No. 2.

A-3

Basic Pay--Clerical		\$2,149.60
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Reduce Basic pay clerical for the difference between booked amount and budgeted amount. See Audit Disclosure No. 3.

State of Florida

Commissioners:
SUSAN F. CLARK, CHAIRMAN
J. TERRY DEASON
JULIA L. JOHNSON
DIANE K. KIESLING
JOE GARCIA



DIVISION OF RECORDS &
REPORTING
BLANCA S. BAYO
DIRECTOR
(904) 413-6770

Public Service Commission

May 14, 1996

Bob Custer
Buccaneer Water Service
2210 North Tamiami Trail
North Ft. Myers, Florida 33903-2871

RE: Docket No. 960133-WU -- Buccaneer Water Service
Staff-assisted Rate Case - Period Ended December 31, 1995
Audit Control #96-051-4-1

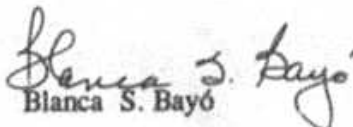
Dear Mr. Custer:

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

The Division of Records and Reporting is holding the workpapers for which you requested confidential treatment. You have 21 days from the audit exit conference, or May 28, 1996 to file a formal request for Confidential Classification with the Division of Records and Reporting.

Thank you for your cooperation.

Sincerely,


Blanca S. Bayo

BSB/mas
Enclosure
cc: Public Counsel
Rose Law Firm