

ORIGINAL

State of Florida



Public Service Commission

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

DATE: November 1, 1999
TO: Division of Division of Water and Wastewater (Johnson)
FROM: Division of Auditing and Financial Analysis (Vandiver) W
RE: Docket No. 990975-SU; Bonita Country Club Utilities, Inc.
 Audit Report - Establish Rate Base
 Audit Control No. 99-244-4-1

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.

Attachment

cc: Division of Auditing and Financial Analysis (Devlin, Causseaux, Harvey, File Folder)
 Miami District Office (Welch)
 Division of Records and Reporting ✓
 Division of Legal Services

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- AFA _____
- APP _____
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- WAW _____
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FPSC-RECORDS & REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

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

Miami District Office

BONITA COUNTRY CLUB UTILITIES, INC.

ESTABLISHMENT OF RATE BASE

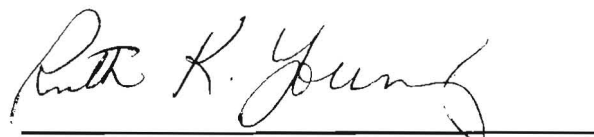
PERIOD ENDED JULY 31, 1999

AUDIT CONTROL NO. 99-244-4-1

DOCKET NO. 990975-SU



Kathy L. Welch, Audit Manager



*Ruth K. Young, Professional
Accountant Specialist*

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

October 25, 1999

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED
PARTIES**

We have applied the procedures described later in this report to prepare the accompanying schedule of Rate Base for the period ended July 31, 1999 for Bonita Country Club Utilities, Inc. This schedule was prepared as part of the petition for transfer of the certificate in Docket 990975-SU. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

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 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 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.

Examined- The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied and account balances were tested to the extent further described.

Confirmed- Evidential matter supporting an account balance, transaction or other information was obtained directly from an independent third party.

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

RATE BASE: Examined plant in service since the last rate case by obtaining all supporting documentation. Examined the financial statements at December 31, 1997. Updated by calculating accumulated depreciation for 1998 and 1999 and preparing all adjusting entries. Imputed CIAC using number of customers and compared to "Other Revenue" account, where utility recorded CIAC and 1997 trial balance. Determined additions for 1998 and 1999. Updated 12/31/97 financials by calculating amortization of CIAC for 1998 and 1999 and preparing adjusting entries. Searched the courthouse records for land sales for the utility and its affiliates. Reviewed company prepaid CIAC schedule and Developer Agreements.

NET OPERATING INCOME: Reviewed expenses with Tallahassee staff for escrow account determination established as part of the dispute between the buyer and the seller.

OTHER: Read Board of Director's Minutes and reviewed outside accountant's work papers. Scanned payments for checks to affiliates. Verified the affiliate company

EXCEPTIONS

Exception No. 1

Subject: Retirement of Old Treatment Plant and 1998 Additions

Statement of Fact: The company built a new treatment plant which went into service in 1995. The old plant is no longer being used. The company was depreciating plant at 4%.

In 1998, the company paid \$11,548.70 for a refurbishment of a master lift station.

Opinion: The old plant should be retired. Based on schedules supporting the annual reports, the value in 1995 was \$243,663.22. The NARUC chart of accounts requires the following entry:

ACCUMULATED DEPRECIATION	\$243,663.22	
PLANT		\$243,663.22

The company continued to depreciate the plant at 4% each year through 1997. This depreciation needs to be removed. The depreciation is computed at 4% for 3 years or \$29,239.59. The following adjustment is needed:

ACCUMULATED DEPRECIATION	\$29,239.59	
RETAINED EARNINGS		\$29,239.59

The refurbishment of the lift station needs to be added to plant in service. It was not recorded because the consultant never did the books or the annual report for 1998. The depreciation for this entry is included in Audit Exception 5.

The following entry is needed:

PLANT	\$11,548.70	
RETAINED EARNINGS		\$11,548.70

Audit Exception No. 2

Subject: Lack of Substantiation for Affiliate Transaction

Statement of Fact: The utility recorded \$17,800 as an addition in 1995 for walkways for the new plant. The walkways were built by Platinum Coast but the company could not provide any detail related to the costs incurred by Platinum Coast or the labor hours incurred. The company claims to have lost all of its old records in a fire in its Golf Cart Shed. Rule 25-30.110(1)(a), Florida Administrative Code, states "each utility shall preserve its records in accordance with the "Regulations to Govern the Preservation of Records of Electric, Gas and Water Utilities" as issued by the National Association of Regulatory Utility Commissions, as revised May 1985." Instruction I of this Document, on page 5, requires "When any records are destroyed before the expiration of the prescribed period of retention, a certified statement listing, as far as may be determined, the records destroyed and describing the circumstances of accidental or other premature destruction shall be filed with the Commission within 90 (ninety) days from the date of discovery of such destruction. Discovery of loss of records is to be treated in the same manner as in the case of premature destruction.

Opinion: The Commission's staff engineer reviewed the work performed and could not help verify the cost. Since the company could not provide evidence of the cost, it is being removed. Depreciation was computed as shown on the following schedule, using the 4% rate used by the company through 1997 and the rule rate of 3.13% used by staff for 1998 and 1999 depreciation. The following entry should be made:

ACCOUNTS PAYABLE AFFILIATE	\$17,800.00	
TREATMENT PLANT		\$17,800.00
ACCUMULATED DEPRECIATION	\$2,660.73	
DEPRECIATION EXPENSE		\$324.48
RETAINED EARNINGS		2,336.25

DEPRECIATION EXPENSE ON WALKWAYS OF \$17,800:

DEPRECIATION EXP. 1995 AT 2%	\$356.00
DEPRECIATION EXP. 1996 AT 4%	712.00
DEPRECIATION EXP. 1997 AT 4%	712.00
DEPRECIATION EXP. 1998 AT 3.13%	556.25
DEPRECIATION EXP. 1997 AT 3.13% FOR 7 MONTHS	324.48
TOTAL	<u>\$2,660.73</u>

Exception No. 3

Subject: Additions that could not be supported

Statement of Fact: The utility could not find invoices for old additions to plant. Copies of some invoices were found at the utility accountant's office. Some could not be found. The utility claims the invoices were destroyed in the fire.

Opinion: Invoices could not be found for \$8,750.74 for the collection system and \$20,368.73 for the pumping plant. Depreciation is computed on the following schedule. The following entries are needed:

PAYABLE TO AFFILIATE	\$29,119.47	
COLLECTION SYSTEM		\$8,750.74
PUMPING PLANT		20,368.73
ACCUMULATED DEPRECIATION	\$13,546.99	
DEPRECIATION EXPENSE		\$773.53
RETAINED EARNINGS		12,773.46

DEPRECIATION ON UNSUPPORTED PLANT

	PLANT	RATES	DEPRECIATION
354.40 NEW PLANT		3.13%	0.00
354.50 NEW LAB		2.50%	0.00
361.20 COLLECTION	\$8,750.74	2.22%	\$194.46
363.20 SERVICES		2.63%	0.00
364.20 FLOW MEASURING		20.00%	0.00
371.30 PUMPING	20,368.73	5.56%	1,131.60
380.40 TREATMENT OLD			0.00
389.00 OTHER		6.67%	0.00
393.00 TOOLS, SHOP MISC.		6.25%	0.00
1998 DEPRECIATION	<u>\$29,119.47</u>		<u>\$1,326.06</u>
1999 AT 7 MONTHS			\$773.53
1987	\$19,334.73	2.00%	386.69
1988	19,334.73	4.00%	773.39
1989-ADDITIONS AT 2%	29,119.47	4.00%	969.08
1990 TO 1997-8 YEARS	29,119.47	4.00%	9,318.23
TOTAL ACC. DEP ON UNSUPPORTED PLANT			<u>\$13,546.99</u>

Exception No. 4

Subject: Difference between the books and the order

Statement of Fact: Order No. 15549 contains balances for 12/31/83 that were different from the beginning balances used by the utility. The difference are as follows:

	Order Adjusted For 13 Month Average	Beginning Balance Per the Company	Difference
Plant	\$550,558.00	\$555,049.00	\$4,491.00
Acc. Depreciation	(62,271.00)	(62,720.66)	449.66
Acc. Amortization	16,684.00	17,087.29	403.29

Opinion: The order balances should be used. The following entry is needed to correct to the order:

Retained Earnings	\$4,444.63	
Accumulated Depreciation	449.66	
Plant		\$4,491.00
Accumulated Amortization		403.29

Audit Exception No. 5

Subject: The utility has not recorded CIAC or Depreciation for 1998 and 1999

Statement of Fact: The utility used a consultant to compile 1997's financial statements. The utility has not completed the 1998 and 1999 financials. The company has been recording Contributions in Aid of Construction as Other Revenue and has not shown any depreciation.

Opinion: Using the Other Revenue accounts, the Contributions for 1998 and 1999 were determined to be \$55,250. These amounts were amortized using the composite rate determined from the depreciation expense. The schedule that follows computes amortization for 1998 and 1999 and the amortization associated with Exception No. 6.

The entry for the 1998/99 CIAC is as follows:

Other Sewer Revenue	\$55,250.00	
CIAC		\$55,250.00
Accumulated Amortization CIAC	\$29,268.42	
Amortization Expense		\$11,080.29
Retained Earnings		18,188.13

Accumulated Depreciation was computed using plant according to the 1997 financial statements and an increase for an addition for 1998. Depreciation was computed using the rates in rule 25-30.140. The depreciation for 1998 was \$36,293.89 and for the seven months of 1999, \$21,358.57. The computation follows the CIAC amortization schedule.

The entry for depreciation is:

Depreciation Expense	\$21,358.57	
Retained Earnings	36,293.89	
Accumulated Depreciation		\$57,652.46

CIAC PER STAFF:	CIAC	CUMULATIVE CIAC	RATE	AMORT. ACCUMULATED EXPENSE AMORTIZATION	NOTE A
BALANCE PER ORDER 1993	\$235,106.00	\$235,106.00	4.00%	\$17,087.29	
1984 ADDITIONS	12,000.00	247,106.00	4.00%	\$9,644.24	26,731.53
1985 ADDITIONS	24,000.00	271,106.00	4.00%	10,364.24	37,095.77
1986 ADDITIONS	6,750.00	277,856.00	4.00%	10,979.24	48,075.01
1987 ADDITIONS	45,750.00	323,606.00	4.00%	12,029.24	60,104.25
1988 ADDITIONS	31,500.00	355,106.00	4.00%	13,574.24	73,678.49
1989 ADDITIONS	43,050.00	398,156.00	4.00%	15,065.24	88,743.73
1991 ADDITIONS	25,100.00	423,256.00	4.00%	16,428.24	105,171.97
1992 ADDITIONS	55,750.00	479,006.00	4.00%	18,045.24	123,217.21
1993 ADDITIONS	68,500.00	547,506.00	4.00%	20,530.24	143,747.45
1994 ADDITIONS	7,900.00	555,406.00	4.00%	22,058.24	165,805.69
1995 ADDITIONS	17,600.00	573,006.00	4.00%	22,568.24	188,373.93
1996 ADDITIONS	4,400.00	577,406.00	4.00%	23,008.24	211,382.17
1997 ADDITIONS	34,200.00	611,606.00	4.00%	23,780.24	235,162.41
TOTAL AT 12/97	<u>\$611,606.00</u>				
PER SUPPORT FOR ANNUAL REPORT AT 12/97					240,668.15
DIFFERENCE EXCEPTION 6					<u>(\$5,505.74)</u>
1998 ADDITIONS	\$22,550.00	\$634,156.00	2.92%	\$18,188.13	\$253,350.54
1999 ADDITIONS-7 MTHS	<u>32,700.00</u>	666,856.00	2.92%	11,080.29	264,430.82
	<u>\$666,856.00</u>				
TOTAL 1998 AND 1998				\$29,268.41	

A: USED AMOUNTS PER ANNUAL REPORT SCHEDULES BEFORE ADJUSTMENTS

COMPANY: BONITA COUNTRY CLUB UTILITIES
 TITLE: ACCUMULATED DEPRECIATION
 TEST YEAR: JULY 1999

ACCOUNT	ACCOUNT TITLE	BALANCE 12/31/97	ADDITIONS 1998	ADDITIONS 1999	BALANCE 7/31/99
353.40	LAND	60,000.00			60,000.00
354.40	NEW PLANT	\$575,853.79			\$575,853.79
354.50	NEW LAB	81,650.00			81,650.00
361.20	COLLECTION	330,919.84			330,919.84
363.20	SERVICES	191,265.15			191,265.15
364.20	FLOW MEASURING	3,893.62			3,893.62
371.30	PUMPING	47,294.09	11,548.70		58,842.79
380.40	TREATMENT OLD	243,663.22			243,663.22
389.00	OTHER	444.87			444.87
393.00	TOOLS, SHOP MISC.	1,816.22			1,816.22
		<u>\$1,476,800.80</u>	<u>\$11,548.70</u>	<u>\$0.00</u>	<u>\$1,488,349.50</u>

	PLANT	RATES	DEPRECIATION
354.40	NEW PLANT	3.13%	\$17,995.43
354.50	NEW LAB	2.50%	2,041.25
361.20	COLLECTION	2.22%	7,353.77
363.20	SERVICES	2.63%	5,033.29
364.20	FLOW MEASURING	20.00%	778.72
371.30	PUMPING	5.56%	2,627.45
380.40	TREATMENT OLD		0.00
389.00	OTHER	6.67%	29.66
393.00	TOOLS, SHOP MISC.	6.25%	113.51
	<u>\$1,233,137.58</u>		<u>\$35,973.09</u>

1/2 YEAR ON ADDITION \$11,548.70 5.56% \$320.80
 DEPRECIATION 1998 1,244,686.28 36,293.89 2.92% COMPOSITE RATE
 ADDITIONAL 1/2 YEAR ON 1998 ADD. FOR 1999 320.80
 DEPRECIATION JULY 1999 1,244,686.28 21,358.57 7 MONTHS-JAN. TO JULY

ADJUSTING ENTRY

DEPRECIATION EXPENSE	\$21,358.57	
RETAINED EARNINGS	36,293.89	
ACCUMULATED DEPRECIATION		\$57,652.46

Exception No. 6

Subject: CIAC Not Recorded

Statement of Fact: The utility provided its consultant with information about connections which did not agree with its other revenue account. The increase in customers was determined as of 1997 and multiplied by the CIAC rate.

Opinion: The difference determined when imputing CIAC using number of customers was close to the difference determined between the books and the amount determined using other revenue. Therefore, CIAC was adjusted for the difference of \$57,027. The schedule that follows shows the comparison. The amortization of CIAC was determined on the schedule attached to Exception No. 5 and increases accumulated amortization by \$5,505.74.

CIAC PER STAFF:

BALANCE PER ORDER 1993	\$235,108.00	
1984 ADDITIONS	12,000.00	SOURCE: ANNUAL REPORT BACKUP SCHEDULE
1985 ADDITIONS	24,000.00	SOURCE: ANNUAL REPORT BACKUP SCHEDULE
1986 ADDITIONS	6,750.00	SOURCE: ANNUAL REPORT BACKUP SCHEDULE
1987 ADDITIONS	45,750.00	SOURCE: ANNUAL REPORT BACKUP SCHEDULE
1988 ADDITIONS	31,500.00	SOURCE: ANNUAL REPORT BACKUP SCHEDULE
1989 ADDITIONS	43,050.00	SOURCE: OTHER REVENUE
1991 ADDITIONS	25,100.00	SOURCE: OTHER REVENUE
1992 ADDITIONS	55,750.00	SOURCE: OTHER REVENUE
1993 ADDITIONS	68,500.00	SOURCE: OTHER REVENUE
1994 ADDITIONS	7,900.00	SOURCE: OTHER REVENUE
1995 ADDITIONS	17,600.00	SOURCE: OTHER REVENUE
1996 ADDITIONS	4,400.00	SOURCE: OTHER REVENUE
1997 ADDITIONS	34,200.00	SOURCE: OTHER REVENUE
TOTAL AT 12/97	<u>\$611,608.00</u>	
	554,581.00	PER ANNUAL REPORT BACKUP SCHEDULE
DIFFERENCE	<u>\$57,027.00</u>	

DIFFERENCE IN CUSTOMERS:

	CUSTOMERS 1983	CUSTOMERS 1997	DIFFERENCE	RATE	EXPECTED INCREASE
MULTI	222	411	189	500	\$94,500.00
RESIDENTIAL	74	448	374	750	280,500.00
					<u>\$375,000.00</u>
BALANCE ANNUAL REPORT BACKUP 12/97					\$554,581.00
BALANCE ANNUAL REPORT BACKUP 12/83					<u>235,106.00</u>
					<u>\$319,475.00</u>
DIFFERENCE					\$55,525.00
DIFFERENCE ABOVE					<u>57,027.00</u>
UNACCOUNTED FOR DIFFERENCE					<u>(\$1,502.00)</u>

DISCLOSURES

Disclosure No. 1

Subject: Land

Statement of Fact: At the time of the last rate case, \$60,000 was allocated from the total purchase price of \$1,026,000 for utility plant land. There was no description for the land and no deed was prepared at that time. The purchase agreement described several parcels of land along with the sewage disposal system, the maintenance building, and the club house along with the furniture and fixtures. One of the parcels of land was described as "Unit 2, Parcel 1, 10.4 acres for Sewage Disposal System and Maintenance Building". There is no documentation in the last case which shows whether the entire 10.4 acres was included for the \$60,000 or whether it was some portion of the 10.4 acres.

In 1991 Michael Micelli sold the 10.4 acres of sewer plant property, the driving range, and a vacant parcel across from Golf Villas for \$600,000 to Platinum Coast Financial Corp., an affiliate company.

In 1995, Platinum Coast sold 2.54 acres of the land to Bonita Country Club Utilities for \$60,000 which was the original dollar amount recorded in the last rate order. The 2.54 acres contains the old treatment plant, the new plant, and one of the perc ponds. Several ponds are located on the other parcel.

Opinion: The original \$60,000 recorded may have contained more of the 10.4 acres than were transferred in 1995. Because there was no deed made in 1983 or documentation in the rate case, the amount of land included in the last rate case could not be determined.

Disclosure No. 2

Subject: Developer Agreements

Statement of Fact: The company added two developments and one commercial customer since the last case. The Lutheran Church, the Greens (Southlands) and McCoy (Fairway Dunes) all retained title to the lines and lift stations according to the developer agreements. Expenses related to them are to be borne by the Developer. The company claimed it had the same situation with Golf Villas (Eagle Point), however, according to developer agreement 92-050 between the utility and Golf Villas, filed with the Commission, the assets have been contributed and were included in the last case.

Disclosure No. 3

Subject: Prepaid CIAC

Statement of Fact: The utility has reported the following prepaid CIAC:

Milimela -78 units
Malegiero-30 units
SouthLands-13 units
Woodbridge-13 units

The following amounts were found in other revenue, which was transferred to CIAC in the audit exceptions, related to these developers:

Milimela \$31,200
Malagiero \$30,000
Woodbridge \$18,500

Using the number of units above times the rate, prepaid CIAC should be:

Milimela -78 units	\$39,000
Malegiero-30 units	\$22,500
SouthLands-13 units	\$ 9,750
Woodbridge-13 units	\$ 9,750

Opinion: It does not appear that Milimela paid the appropriate amount. The payment for the Southlands, which was formerly the Greens, and owned by Mr. Micelli, could not be located in the ledger.

Exhibits

COMPANY: BONITA COUNTRY CLUB UTILITIES
 TITLE: RATE BASE
 TEST YEAR: JULY 1999

ACCOUNT	BALANCE 12/31/97	STAFF ADJUSTMENT	REFERENCE	STAFF ADJUSTED BALANCE
LAND	60,000.00			60,000.00
PLANT	1,476,800.79	(283,524.99)	A,B,C,D	1,193,275.80
ACCUMULATED DEPRECIATION	(517,362.98)	231,907.73	A,B,C,D,G	(285,455.25)
CIAC	(554,581.00)	(112,277.00)	E,F	(666,858.00)
ACCUMULATED AMORTIZATION	240,668.15	23,360.38	D,E,F	264,028.53
TOTAL RATE BASE	705,524.96	(140,533.88)		564,991.08

COMPANY: BONITA COUNTRY CLUB UTILITIES
 TITLE: ADJUSTING ENTRIES
 TEST YEAR: JULY 1999

	DEBITS	CREDITS
A	REMOVE OLD PLANT WHICH IS RETIRED DUE TO STRUCTURAL SAFET ACCUMULATED DEPRECIATION PLANT	\$243,663.22 \$243,663.22
	REMOVE ACCUMULATED DEPRECIATION RECORDED 1995 TO 1997	
	ACCUMULATED DEPRECIATION RETAINED EARNINGS	\$29,239.59 \$29,239.59
	ADD IN 1998 PLANT:	
	PLANT RETAINED EARNINGS	\$11,548.70 \$11,548.70
B	REMOVE WALKWAYS BUILT BY PLATINUM COAST SINCE ADDITIONS COULD NOT BE SUPPORTED BY DETAIL.	
	ACCOUNTS PAYABLE AFFILIATE TREATMENT PLANT	\$17,800.00 \$17,800.00
	REMOVE ACCUMULATED DEPRECIATION RECORDED	
	ACCUMULATED DEPRECIATION DEPRECIATION EXPENSE RETAINED EARNINGS	\$2,660.73 \$324.48 2,336.25
C	REMOVE ADDITIONS 1984 TO 1991 THAT COULD NOT BE SUPPORTED:	
	PAYABLE TO AFFILIATE COLLECTION SYSTEM PUMPING PLANT	\$29,119.47 \$8,750.74 20,368.73
	REMOVE DEPRECIATION ON THE ABOVE ADDITIONS	
	ACCUMULATED DEPRECIATION DEPRECIATION EXPENSE RETAINED EARNINGS	\$13,546.99 \$773.53 12,773.46
D	ADJUST FOR DIFFERENCE BETWEEN ORDER AND BOOKS	
	RETAINED EARNINGS ACCUMULATED DEPRECIATION PLANT ACCUMULATED AMORTIZATION CIAC	\$4,444.63 449.66 \$4,491.00 403.29
E	RECORD CIAC FOR 1998 AND 1999	
	OTHER SEWER REVENUE CIAC	\$55,250.00 \$55,250.00
	RECORD AMORTIZATION FOR 1998 AND 1999	
	ACCUMULATED AMORTIZATION CIAC AMORTIZATION EXPENSE CIAC RETAINED EARNINGS	\$29,268.42 \$11,080.29 18,188.13
F	INCREASE CIAC BASED ON OLD LEDGERS OTHER REVENUE AND INCREASE IN CUSTOMERS	
	RETAINED EARNINGS CIAC	\$57,027.00 \$57,027.00
	CORRECT ACCUMULATED AMORTIZATION USING THESE NUMBERS	
	RETAINED EARNINGS ACCUMULATED AMORTIZATION CIAC	\$5,505.74 \$5,505.74
G	RECORD DEPRECIATION EXPENSE 1998 AND 7 MONTHS OF 1999	
	DEPRECIATION EXPENSE RETAINED EARNINGS ACCUMULATED DEPRECIATION	\$21,358.57 36,293.89 \$57,652.46
		\$557,176.61 \$557,176.61