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Public Service Commission

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

DATE: March 30, 2009
TO: Jared Deason, Regulatory Analyst IV, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance *DW*
RE: Docket No: 080715-WU; Company Name: CWS Communications, LP;
Audit Purpose: Staff-assisted Rate Case; Company Code: WU839;
Audit Control No: 09-015-1-2;

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 the Commission Clerk. There are no confidential work papers associated with this audit.

DNV/tbm

Attachment: Audit Report

CC: Division of Regulatory Compliance (Salak, Mailhot, Harvey,
District Offices, File Folder)
Office of Commission Clerk (2)
General Counsel
Office of Public Counsel

Ms. Holly Simpson
CWS Communications, LP
14 Coral Street
Eustis, FL 32726-6710

Ms. Mary F. Smallwood
Ruden Law Firm
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Tallahassee, FL 32301

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STATE OF FLORIDA



FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING

Tallahassee District Office

CWS COMMUNITIES, LP

STAFF-ASSISTED RATE CASE

TEST YEAR ENDED DECEMBER 31, 2008

DOCKET NO. 080715-WU
AUDIT CONTROL NO. 09-015-1-2

A handwritten signature in black ink, appearing to read "Charleston J. Winston".

Charleston J. Winston, Audit Manager

A handwritten signature in black ink, appearing to read "Lynn M. Deamer".

Lynn M. Deamer, Audit Supervisor

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

March 20, 2009

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare the accompanying schedules of Rate Base, Net Operating Income and Capital Structure as of December 31, 2008, for CWS Communities, LP. The attached schedules were prepared by the audit staff as part of our work in Docket No. 080715-WU.

This review 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 and the report is intended only for internal Commission use.

OBJECTIVES AND PROCEDURES

RATE BASE

- A. Objective – Plant in Service:** To determine that property exists and is owned by the utility. To determine that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that the proper retirements of UPIS were made when a replacement item was put in service.

We reviewed the utility's books and records for plant additions from October 2003 to December 31, 2008 and traced them to the general ledger. A tour of the utility plant was performed to verify the physical assets. Plant in Service could not be established due to inadequate books and records of the utility. Audit Finding No. 1 addresses the books and records of the utility.

- B. Objective – Land and Land Rights:** To determine that utility land is recorded at original cost and is owned or secured under a long-term lease.

We reviewed the warranty deed to verify that the Parent Company, Hometown America, Inc., owns the utility's land. Due to the inadequate books and records of the utility, the original land value could not be established. Audit Finding No. 1 addresses the books and records of the utility.

- C. Objective – Accumulated Depreciation and Depreciation Expense:** To verify that accumulated depreciation and depreciation expense are calculated using the Commission authorized rates and that the calculations are correct.

We reviewed the utility's books and records for accumulated depreciation and depreciation expense. Accumulated depreciation and depreciation expense could not be established due to inadequate books and records of the utility. Audit Finding No. 1 addresses the books and records of the utility.

- D. Objective – Contribution in Aid of Construction (CIAC):** To determine that Utility CIAC balances are properly stated and are reflective of service availability charges authorized in the utility's approved Commission tariff.

We reviewed the utility's books and records for CIAC. We read the utility's authorized tariff to determine the type and the amount of service availability fees for new customer additions, and inquired if the utility had any special agreements, developer agreements, and whether or not it has received donated property of CIAC. We reviewed the prior Commission audit for the establishment of CIAC. Audit Finding No. 2 addresses the correct CIAC balance for the utility.

- E. Objective – Accumulated Amortization of CIAC and Amortization Expense:** To determine that CIAC accumulated amortization balances are properly stated and that annual accruals are reflective of depreciation rates authorized in the utility's last Commission rate case proceeding.

We reviewed the utility's books and records for Accumulated Amortization of CIAC and Amortization Expense. We calculated Accumulated Amortization of CIAC and Amortization Expense as of December 31, 2008 for the utility. Audit Finding No. 2 addresses the correct Accumulated Amortization of CIAC balance and CIAC Amortization Expense.

- F. Objective – Working Capital:** To determine the utility's working capital balance using one-eighth of operation and maintenance expenses.

We calculated the utility's working capital balance as of December 31, 2008 using one-eighth of operation and maintenance expenses pursuant to Commission rule 25-30.433(2), Florida Administrative Code.

- G. Objective – Capital Structure:** To determine that capital structure represents utility's debt, capital stock, retained earnings, deferred taxes, customer deposits, and other available funds for investment in utility plant, inventory, and operations.

We traced the common equity and debt components to the parent company's general ledger and annual report. We recalculated the cost rate for common equity and debt.

REVENUE AND EXPENSES:

- A. Objective – Revenue:** To verify that revenues earned from the utility property during the test year are recorded and to verify that the utility is billing the approved tariff rates, and that the revenues are classified in compliance with the Commission Rules and Uniform System of Accounts.

1. We reviewed and recalculated the utility revenues for 2008 per the utility's authorized tariffs. Audit Finding No. 3 addresses the correct amount of revenues for 2008.
2. We reconciled revenues reported on the Regulatory Assessment Fee (RAF) filing to the utility's books and records, and recalculated the amount of RAF fees due based on the utility's revenues reported.

- B. Objective – Operation and Maintenance (O&M) Expenses:** To determine that operation and maintenance expenses are classified according to the Commission Rules and Uniform System of Accounts, that expenditures are appropriate for regulatory policy, that the amounts on the invoice agree with the general ledger, and that expenditures are recorded in the proper period.

We reviewed the utility's O&M expenses included in the general ledger. We sampled the expenses for the proper supporting documentation, proper amount, proper period, proper classification, whether non-utility related, nonrecurring, unreasonable or imprudent. Audit Finding No. 4 addresses the correct amount of O&M expenses for 2008.

C. Objective – Taxes other than Income: To determine the appropriate amount of taxes other than income taxes for the test year.

We sampled taxes other than income incurred by the utility for the historical test year for the proper supporting documentation, proper amount, proper period, proper classification, whether non-utility related, nonrecurring, unreasonable or imprudent. We reconciled taxes other than income amounts to the utility's general ledger. Audit Finding No. 5 addresses the correct amount of taxes other than income for 2008.

AUDIT FINDING NO. 1

SUBJECT: BOOKS AND RECORDS

AUDIT ANALYSIS: CWS Communities, LP books and records are not maintained in accordance with The National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA).

NARUC, Class C, Accounting Instruction, 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.

Commission Rule 25-30.115, Florida Administrative Code, (F.A.C.), requires Florida utilities to maintain their books and records in conformity with the NARUC USOA.

CWS Communities, LP does not have adequate records to establish rate base. Commission Order No. PSC-05-0186-PAA-WS, issued in the transfer docket¹ on February 17, 2005 states:

Rate base has never been set for CWS. CWS was put on notice that an original cost study may be required when the utility files a rate petition if the utility cannot provide the original cost documentation...Hometown provided a statement that it will perform an original cost study to support the investment in plant and lines prior to any application for a rate increase.

The utility did provide an original cost study.

The utility does not maintain its Chart of Accounts per NARUC. The utility had to provide a cross-reference from its accounts to the NARUC accounts.

Some of the operation and maintenance expenses were not recorded for the utility and some recorded for the utility were not utility related.

Revenues for the utility were not properly recorded.

Commission Rule 25-30.110(1)(a)2(b), F.A.C., requires Florida utilities to maintain their books and records within the state of Florida unless otherwise authorized by the Commission. The transfer order referenced above also states:

Two representatives of the utilities met with Commission audit staff in July 2004 regarding the accounting requirements. Information collected at this meeting was forwarded to the Hometown America Corporate accounting section. We have

¹ Docket No. 030998-WS

confirmed that the utilities have now set up general ledgers based on NARUC USOA. These accounts are being maintained on a monthly basis and copies of the books and records are being maintained in Florida.

The utility is no longer maintaining a copy of its books and records in the state of Florida.

The Commission should require the utility to maintain its books and records in compliance with the NARUC USOA, Commission orders, and Commission rules.

AUDIT FINDING NO. 2

SUBJECT: CIAC

AUDIT ANALYSIS: The Commission audit in Docket No. 030998-WS, dated April 5, 2004 recommended CIAC of \$93,925 and Accumulated Amortization of \$30,753 as of October 16, 2003. The following was taken from that report:

Exception No. 4

Subject: CIAC and Related Amortization

Statement of Fact: CIAC and the related accumulated amortization as of March 31, 1999, per Order No. PSC-01-0425, issued February 22, 2001, were \$47,775 and \$20,686, respectively.

The CIAC balance was imputed based on 147 customers and the utility's service availability charge of \$325.

According to Haselton Village's records, the utility has 289 lots, excluding park models, that were occupied at some time from the period between March 31, 1999 and October 16, 2003.

Imputed CIAC from the additional 142 customers (289 - 147) based on the tariff rate would amount to \$46,150 (142 * \$325).

The total CIAC per the audit staff as of October 16, 2003, is \$93,925 (\$47,775 + \$46,150).

CIAC per audit staff as of 10/16/03	\$93,925
CIAC per utility as of 12/31/03	<u>47,775</u>
Recommended staff adjustment	\$46,150

The amortization on the CIAC balance was calculated at 3.1 percent.

The utility was unable to document when each of these additional 142 lots was originally occupied. Therefore, the amortization was based on the average balance between March 31, 1999 and October 16, 2003.

Per the audit staff, accumulated amortization of \$30,753 was based on the following computation.

\$47,775 * .031/12 months * 55 months or \$47,775 * .031 * 4.58333 years	\$6,788
\$46,150 * .00258333 * 27.5 months or \$46,150 * .031 * 4.58333 years/2	<u>3,279</u>
Total accumulated amortization per audit staff as of 10/16/03	\$30,753
Total accumulated amortization per utility as of 12/31/03	<u>22,510</u>
Recommended audit staff adjustment	<u>\$8,243</u>

We have reviewed and accepted the above prior audit staff Finding and the related workpapers used in Docket 030998-WS that calculated the balances of CIAC and Accumulated Amortization of CIAC as of October 16, 2003.

The utility did not record any amount for CIAC or Accumulated Amortization of CIAC in the general ledger as of December 31, 2008.

A review of the utility's records indicated that no new customers have been added from October 16, 2003 to December 31, 2008.

We calculated additions to Accumulated Amortization of CIAC of \$15,044 ($\$93,925 \times 62 \text{ months} \times 3.1\% \text{ amortization rate} / 12 \text{ months}$) for the period November 2003 through December 2008.

Total Accumulated Amortization of CIAC as December 31, 2008 is \$45,797 ($\$30,753 + \$15,044$)

We calculated CIAC Amortization Expense of \$2,912 ($\$93,925 \times 3.1\%$) for the year ending December 31, 2008.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:

CIAC should be increased by \$93,925

Accumulated Amortization of CIAC should be increased by \$45,797

CIAC Amortization Expense should be increased by \$2,912

AUDIT FINDING NO. 3

SUBJECT: REVENUES

AUDIT ANALYSIS: The utility recorded \$18,814 for revenues in its general ledger for 2008. The utility billing registers totaled \$21,801 for revenues for 2008.

Due to a prior agreement, twenty-one residents serviced by the utility were not charged for water service in 2008. Commission Order PSC-94-0569-SU, issued May 13, 1994 states:

The Commission has been presented with this issue in the past and has taken the position that it does have the statutory authority to alter the provisions of pre-existing contracts establishing rates and charges. Pursuant to Chapter 367, Florida Statutes, the Commission has exclusive jurisdiction to regulate the provision of water and wastewater service by utilities, which of course, includes the establishment of rates and charges. In Public Service Commission v. Lindahl, 613 So.2d 63 (Fla.2d DCA 1993), the Court found that the Commission's authority to raise or lower rates, even those established by a contract, is preemptive. Id. at 64. Also, in Order No. 21680, issued August 4, 1989 (Application of Continental Country Club, Inc. for an increase in water and wastewater rates in Sumter County, Florida), the Commission found that a pre-existing contract, of an identical nature to the contract in this case, was not determinative in setting rates in accordance with Chapter 367, Florida Statutes.

As stated earlier in regard to pre-existing contracts, pursuant to Chapter 367, Florida Statutes, the Commission has exclusive jurisdiction to regulate utilities' provision of water and wastewater service, including rates and charges. The Commission's rate-setting authority supersedes any conflicting provisions in the prospectus developed pursuant to the provisions of Chapter 723, Florida Statutes.

Based on the above the audit staff imputed revenues for the twenty-one unbilled customers totaling \$1,890 for 2008.

The audit staff is recommending total revenues of \$23,691 (\$21,801 + \$1,890) for 2008.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:

Revenues should be increased by \$4,877 (\$23,691 - \$18,814).

AUDIT FINDING NO. 4

SUBJECT: OPERATION AND MAINTENANCE EXPENSES

AUDIT ANALYSIS: The utility recorded \$25,486 in operation and maintenance expenses in its general ledger for 2008.

The audit staff reviewed the above expenses and determined that they should be increased by \$5,979. The audit staff is recommending total expenses of \$31,465 (\$25,486 + \$5,979) for 2008. See the attached schedule for details.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:

The general ledger expenses should be increased by \$5,979.

Acct #	Account Name	Description	Amount Per Company	Audit Adjustment	Amount Per Audit	Ref No.
601	Salaries and Wages	Manager	\$ 11,411	\$ 2,282	\$ 13,694	1
615	Purchased Power	Electric Service		\$ 2,715	\$ 2,715	2
		Propane for				
616	Fuel for Power Production	Generator		\$ 980	\$ 980	3
618	Chemicals	Chemicals	\$ 585	\$ (585)		4
618	Chemicals	Chemicals		\$ 393	\$ 393	5
		Total Acct 618:	\$ 585	\$ (192)	\$ 393	
	Contractual Services -					
631	Professional	Customer Billings	\$ 210	\$ (210)		6
	Contractual Services -					
636	Other	Plant Repair		\$ 38	\$ 38	7
	Contractual Services -					
636	Other	Plant Repair		\$ 1,200	\$ 1,200	8
	Contractual Services -					
636	Other	Maintenance		\$ 241	\$ 241	9
	Contractual Services -					
636	Other	Rent Increase				
		Computations	\$ 1,075	\$ (1,075)		10
		Total Acct 636:	\$ 1,075	\$ 404	\$ 1,479	
		Grand Total:	\$ 13,282	\$ 5,979	\$ 19,261	

1. The utility manager's salary of \$1,141 is recorded each month in the general ledger. For the months of January and February 2008, no amount was recorded. To annualize the amount an additional amount of \$2,282 ($\$1,141 \times 2$) should be recorded. No adjustment to payroll taxes is required because the utility included payroll taxes for the twelve months in the general ledger.
2. The water plant has its own separate electric power meter but no amount was recorded in the general ledger for purchased power. The audit staff reviewed the purchased power invoices for 2008 and determined the amount to be \$2,715.
3. An emergency generator is located at the water plant. In 2008, no fuel amount for the generator was included in the general ledger. The audit staff reviewed the fuel invoices for the generator and determined the amount to be \$980 for 2008.
4. The amount of \$585 was a duplication recorded in Account No. 618 – Chemicals and Account No. 636 – Contractual Services – Others. Per the invoice, the \$585 was for the monthly maintenance of the water plant. The amount should be recorded to Account No. 636 – Contractual Services – Others and removed from Account No. 618 - Chemicals.
5. Custom Controls and Pumps, Inc. provides chemicals to the utility for its water plant treatment. Per a review of the invoices, the utility did not record \$393 in purchased chemicals for the water plant for 2008.
6. ManageAmerica, LLC charges CWS Communities, LP and others for the meter readings and billings to the customers for the Parent Company, Hometown America. Because CWS Communities, LP customers are charged a flat rate and the amounts are included in the customer's rent bill the \$210 should be removed from expenses. The \$210 was for only one month included in the general ledger for 2008. If the Commission requires the utility to install meters, then an annual amount should be considered.
7. Custom Controls and Pumps, Inc. provided a repair to the water plant that was invoiced at \$38 and was not recorded to the general ledger for 2008.
8. CDR Excavating Corp. provided a repair to a water line at the utility plant that was invoiced at \$1,200 and was not recorded to the general ledger for 2008.
9. Florida Utility Group, LLC provided bacteriological water testing for the utility but the amount of \$241 was not recorded in the general ledger for 2008.
10. The utility recorded \$1,075 in the general ledger in 2008 for annual rent increase computations for the residents at Haselton Village Mobile Home Park. Per the invoice from Excel Engineering, the \$1,075 was charged to Hometown America, Inc., parent company of the utility. This amount was then charged to the utility but should be removed because it is non-utility related.

AUDIT FINDING NO. 5

SUBJECT: TAXES OTHER THAN INCOME

AUDIT ANALYSIS: The utility recorded \$974 for Regulatory Assessment Fees (RAFs) in its general ledger for 2008.

The utility recorded no Real Estate Taxes for 2008 in its general ledger for 2008.

The above \$974 was calculated based on 2007 revenues. Per Audit Finding No. 2, revenues for 2008 should be \$23,691. RAFs for 2008 should be \$1,066 (4.5% x \$23,691).

Total Real Estate Property Taxes for the Haselton Village Mobile Home Park for 2008 was \$58,886. Assessed values of individual structures was not available, so the total acreage of 36.18 was used to allocate the property taxes to the utility Per the utility the estimated acreage for the CWS Communities, LP Water Treatment Plant is .026 acres Therefore, the amount that should be allocated to the utility is \$42 $((.026 / 36.18) \times \$58,886)$.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:

RAFs should be increased by \$92 $(\$1,066 - \$974)$.

Real Estate Property Taxes should be increase by \$42.

Total increased to Taxes Other Than Income is \$134 $(\$92 + \$42)$

EXHIBIT I

**CWS COMMUNITIES, LP
DOCKET NO. 080715-WU
STAFF-ASSISTED RATE CASE
RATE BASE
AS OF DECEMBER 31, 2008**

DESCRIPTION	COMPANY AMOUNT	AUDIT ADJUSTMENT	AUDIT FINDING	AMOUNT PER AUDIT
UTILITY PLANT IN SERVICE	(A)		1	(A)
LAND	(A)		1	(B) (A)
CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	\$ -	\$ (93,925)		\$ (93,925)
ACCUMULATED DEPRECIATION	(A)		1	(A)
ACCUMULATED AMORTIZATION OF CIAC	\$ -	\$ 45,797		\$ 45,797
WORKING CAPITAL ALLOWANCE	\$ -	\$ 3,933	(B)	\$ 3,933
TOTAL:	\$ -	\$ (44,195)		\$ (44,195)

(A) Per Audit Finding No. 1 these components of rate base will be established by an original cost study.

(B) Working Capital Allowance was established using one-eighth of O and M. See Exhibit II

EXHIBIT II

**CWS COMMUNITIES, LP
DOCKET NO. 080715-WU
STAFF-ASSISTED RATE CASE
NET OPERATING INCOME
FOR THE PERIOD ENDING DECEMBER 31, 2008**

DESCRIPTION	COMPANY AMOUNT	AUDIT ADJUSTMENT	AUDIT FINDING	AUDIT AMOUNT
OPERATING REVENUES	\$ 18,814	\$ 4,877	3	\$ 23,691
EXPENSES:				
O AND M EXPENSES	\$ 25,486	\$ 5,979	4	\$ 31,465
DEPRECIATION EXPENSE			1	
CIAC AMORTIZATION EXPENSE	\$ -	\$ 2,912	2	\$ 2,912
TAXES OTHER THAN INCOME	\$ 2,150	\$ 134	5	\$ 2,284
INCOME TAX EXPENSE	\$ -	\$ -	(A)	\$ -
TOTAL EXPENSES:	\$ 27,636	\$ 3,201		\$ 30,837
<hr/>				
NET OPERATING INCOME (LOSS)	\$ (8,822)	\$ 1,676		\$ (7,146)

(A) The utility is a limited partnership. Partnerships are not subject to federal or state income taxes and the Commission does not allow income tax expense because they are not taxable entities.

Working Capital equals one-eighth of O & M Expenses: $\$31,465 / 8 = \$3,933$

EXHIBIT III

**CWS COMMUNITIES, LP
DOCKET NO. 080715-WU
STAFF-ASSISTED RATE CASE
HOMETOWN AMERICA CONSOLIDATED CAPITAL STRUCTURE
AS OF DECEMBER 31, 2008**

DESCRIPTION	COMPANY AMOUNT	RATIO	COST	WEIGHTED COST
COMMON EQUITY	\$ 1,292,779,443	42.43%	12.67%	5.38%
LONG-TERM DEBT	\$ 1,753,785,919	57.57%	5.51%	3.17%
TOTAL CAPITAL:	\$ 3,046,565,362	100.00%		8.55%

The utility does not collect a customer deposit for service connections

Common Equity cost rate is per commission Order PSC-08-0846-FOF-WS, issued December 31, 2008.