

19

MEMORANDUM

August 12, 1996

TO: DIVISION OF RECORDS AND REPORTING

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

RE: DOCKET NO. 960561-SU - INDIAN SPRINGS UTILITIES, INC.
STAFF-ASSISTED RATE CASE - PERIOD ENDED JUNE 30, 1996
AUDIT CONTROL NO. 96-143-3-1

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 working papers are available for review on request. There are no confidential working papers associated with this audit.

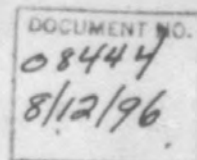
Please forward a complete copy of this report to:

Indian Springs Utilities, Inc.
Jeff Shrader
7655 W. Gulf to Lake Highway, Suite 14
Crystal River, FL 34429-7961

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)
Tampa District Office (Bouckaert)

Research and Regulatory Review (Harvey)
Office of Public Counsel



FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

12 MONTHS ENDED JUNE 30, 1996

Field Work Completed

July 12, 1996

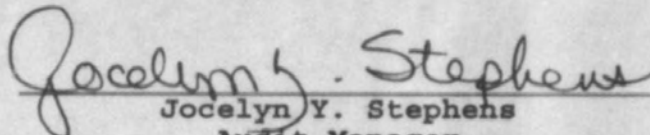
INDIAN SPRINGS UTILITIES, INC.

Citrus County

Staff Assisted Rate Case

Docket Number 960561-SU

Audit Control 96-143-3-1

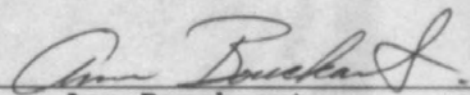

Jocelyn Y. Stephens
Audit Manager

Audit Staff

Joe Rohrbacher

Minority Opinion

Yes No *JUR*


Ann Bouckaert
Public Utilities Supervisor
Tampa

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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 June 30, 1996 for the Indian Springs Utilities, Inc. for Staff Assisted Rate Case, FPSC Docket 960561-SU.

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 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.

Opinion: The schedules of Rate Base, Net Operating Income, and Capital Structure for the twelve month period ending June 30, 1996 represent Indian Springs Utilities, Inc. books and records maintained in substantial compliance with Commission Directives. The expressed opinions extend only to the scope of work described in Section II of this report.

Summary Findings:

The utility does not record CIAC, Amortization of CIAC or Depreciation expense in its general ledger.

Delinquent 1995 Personal Property Taxes may result in an order, by the Tax Collector, directing levy upon and seizure of the property for unpaid taxes.

Utility has proposed expenditures that were not incurred during the test period.

Utility is attempting to initiate sewer revenues based upon water usage.

Utility does not maintain a liability insurance policy on its wastewater plant.

Utility did not post adjusting entries as recorded in PSC Order PSC-93-1823-FOF-WS.

Utility records an expense that is allocated from an affiliated company.

II. AUDIT SCOPE

The opinions contained in this report are based on the audit work described below.

RATE BASE: Reconciled FPSC Order No. PSC-93-1823-POF-WS to utility's 1992 Annual Report. Analyzed cash disbursements for the period 7/1/92 - 6/30/96 and determined capital expenditures. Used G/L to prepare schedules of Plant Additions for the period 7/1/92 - 6/30/96. Reconciled G/L balances to the corresponding Annual Reports. Performed a Plant tour. Computed Accumulated Depreciation, based upon staff computed plant additions using FPSC Guideline Average Service Life Rates. Analyzed cash receipts. Determined Contributions in Aid of Construction (CIAC) for the period 7/92-6/96. Computed Amortization of CIAC for the period 7/92-6/96. Computed Working Capital Allowance using 1/8 of O & M expense. Prepared schedule of Average Rate Base at 6/30/96.

NET OPERATING INCOME: Determined utility revenues using customer billing summary. Performed analysis of selected O & M accounts. Computed depreciation expense using staff adjusted plant additions and FPSC authorized rates. Computed amortization expense using composite depreciation rates. Obtained and analyzed proposed costs for proforma adjustments. Analyzed Taxes other than income. Prepared Net Operating Income Schedule.

CAPITAL STRUCTURE: Determined common equity of utility. Obtained and read debt instruments. Determined interest rate, and outstanding balance at beginning and end of test period. Determined utility is holding no customer deposits. Used authorized rate of return on Common Equity as authorized in FPSC Order # PSC-93-1823-FOF-WS. Prepared schedule of Capital Structure.

OTHER: Prepared trial balance at beginning and end of test period. Reviewed Outside Auditor's workpapers.

AUDIT EXCEPTION NO. 1

SUBJECT: BOOKS AND RECORDS OF THE UTILITY

STATEMENT OF FACT:

FPSC Order No. PSC-93-1823-FOF-WS ordered the utility to maintain its books and records in conformity with the NARUC Uniform System of Accounts and Rule 25-30.115, Florida Administrative Code.

NARUC, Class C, provides for the recording of CIAC, Amortization of CIAC, and Depreciation Expense. NARUC also provides that "The books of accounts of all sewer utilities shall be kept by the double entry method, on an accrual basis".

The utility has not recorded any CIAC or the related amortization thereof in its General Ledger, nor has it recorded Depreciation expense. In addition the utility has not adjusted their books to record these items, which were included in rate base in the above order.

During the current audit period (7/1/92-6/30/96) the utility has collected CIAC for new sewer connections but has not recorded any amounts. In addition the utility has never received or recorded CIAC for the new customers in the Pelican Cove Development (a related company).

The utility's outside CPA does reflect these accounts on the FPSC Annual Report which they prepare.

Also, the utility has not recorded sewer revenues on the accrual basis but on the cash basis. Monies are credited to revenue and debited to cash, when received. No entry is made when customer bills are prepared and mailed.

AUDITOR OPINION:

The utility is in violation of NARUC, Class C, Uniform System of Accounts (Usofa). The following adjustments are needed as of 06-30-96 to bring the books into compliance:

CIAC	
Amortization of CIAC	(\$ 75,241)*
Accumulated Amortization	2,547
Depreciation Expense	40,697
Sewer Revenues	6,881
	3,990

*Includes staff imputed CIAC for the Pelican Cove Development for the period 7/92 - 6/96.

AUDITOR RECOMMENDATION:

Utility be ordered to adjust their books to comply with staff determined balances for CIAC, Amortization of CIAC, and Accumulated Amortization.

AUDIT DISCLOSURE NO. 1

SUBJECT: DELINQUENT TAX NOTICE

STATEMENT OF FACT:

Utility received a letter from the Citrus County Tax Collector, dated June 24, 1996. This letter stated that "Unless the delinquent amount of \$1,588.56 is paid before the 19th of July 96 a warrant will be issued thereon and the Tax Collector will apply to the Clerk of Court for an order directing levy upon and seizure of the property for the unpaid tax."

AUDITOR OPINION:

Taxes had not been paid as of the end of field work on July 12, 1996. Mr. James Eyster (Secretary/Treasurer) and 50% owner of utility, stated that the utility intends to pay the taxes by July 19. However, the money would have to be borrowed from a related company.

AUDIT DISCLOSURE NO. 2

SUBJECT: PROFORMA EXPENSE ITEMS

STATEMENT OF FACT:

Company President, has proposed to expand his responsibilities in relation to the daily operation of the wastewater utility system.

Currently, he receives "...\$400 per month to oversee the day to day operations of the company which include approving invoices over \$500..., checking monthly balance sheet, income statements and general ledger entries, consulting with our operator on a frequent basis, reviewing monthly reports from the operator, writing letters to customers who have 60 day past due accounts, writing letters to the different regulatory companies, handles customer's complaints and concerns and emergency calls for lift station alarms, etc....."

Effective 7/1/96, the utility president has initiated the following:

".....maintenance check on the following:

<u>Location</u>	<u>Days per Week</u>
Main Lift Station	5
Days Inn Lift Station	5
7 Rivers Apts Lift Station	5
Carpenters Country Square Lift Station	5
Far Lift Station	5

In the past, these lift stations went unchecked until shutdown, resulting in various expensive fees and work (operator emergency). I will be doing these lift station checks in an effort to implement a maintenance program/schedule, in a pro-active rather than reactive manner. Also, any lift station alarm soundoffs that occur mean I get called to remedy the situation.

I will perform the above additional work for \$400.00 per month plus mileage of 75 miles per week."

AUDITOR OPINION:

Staff has included the dollars for the above items in a proforma schedule. Annualized effect is \$4,800 - Salaries and Wages - Officers (\$400 X 12); and \$1,087.50 - Transportation (75 miles X 50 weeks X \$.29).

Total adjustment for proforma expenses = \$5,888.

AUDIT DISCLOSURE NO. 3

SUBJECT: MISCELLANEOUS PROPOSED ITEMS

STATEMENT OF FACT:

Utility is proposing to bill its sewer customers based upon water consumption.

Currently, the utility is attempting to obtain a copy of their customer's water usage from the City of Crystal River. The cost for this information has not been determined.

One of the company owners thinks the cost will be between \$100 and \$300 a month.

Also, the utility states that once it obtains the usage from the city, it will "need a computer program to calculate these figures and print customer statements.....for no more than \$150.00".

Additionally, in response to Audit Document/Record Request No. 12, utility stated that "We have to install two 10 hp Blower Motors. The cost has been estimated at \$850.00 for both blowers. We are also installing a Bar Screen at the Days Inn Lift State [sp], estimated cost \$50.00....."

AUDITOR OPINION:

Because no firm costs have been established regarding the cost of obtaining the water usage data from the city or purchasing a computer program; nor has an agreement been entered into to purchase and install the blowers, auditor did not include the above cost projections in its proforma adjustments.

Once the utility receives this information, it will be forwarded to the auditor and WWW analyst or engineer assigned to this audit.

AUDIT DISCLOSURE NO. 4

SUBJECT: LIABILITY INSURANCE ON WASTEWATER PLANT

STATEMENT OF FACT:

In response to Audit Document/Record Request No. 12, utility stated that there was no liability insurance for the Wastewater Treatment Plant during 7/1/95 - 6/30/96.

AUDITOR OPINION:

The company will actively began obtaining premium quotes for liability insurance on the plant. Once the insurance coverage has been obtained, information regarding cost and coverage, will be forwarded to auditor, and/or WWW engineer assigned to audit.

AUDIT DISCLOSURE NO. 5

SUBJECT: ALLOCATION OF EXPENSE FROM RELATED PARTY

STATEMENT OF FACT:

"Indian Springs Utilities, Inc. (ISU) is located in the office of Jim Eyster Realty, Inc. Jim Eyster (one of the owners) charges ISU \$400.00 per month which ISU has not had the cash flow to pay so this amount has been accrued. This amount covers office space, telephone, use of all office equipment, including computers, copy machines, fax machine, typewriters, etc."

"The allocated percentages and amount of each company that also contributes to Jim Eyster Realty, Inc. are as follows:

NAME OF COMPANY	% OF USE	AMOUNT OF MO. CONTRIBUTION
Citrus Recreational Marina, Inc.	40%	\$500.00
Indian Springs Utilities, Inc.	35%	\$400.00
Pelican Cove I Condo Association	10%	\$200.00
Casa Rio Condo Association	10%	\$200.00
Pelican Cove II Condo Association	5%	\$100.00

We have arrived at these percentages mainly on the amount of time spent per each company."

AUDIT DISCLOSURE NO. 6

SUBJECT: ANALYSIS OF ADJUSTMENTS TO RATE BASE ITEMS

STATEMENT OF FACT:

Staff performed an analysis of plant in service beginning with the reconciliation of company records to Commission Order #1823 - (1992), followed by an analysis of plant additions for the period 7/92 thru 6/96.

During the analysis of plant additions, Staff noted that the balances per the G/L did not agree to the balances as recorded in the PSC Annual Report. Company explained that this imbalance occurred because the CPA's Year-End journal entries for the years 1992 - 1995 had not been posted to the G/L.

Staff noted that when company opened its G/L at 1/1/95, the beginning did not agree to the G/L balances at 12/31/94. The 1/1/95 balances did agree to the annual report balances at 12/31/94.

No paper trail existed that documented an adjustment to the G/L. Company explained that they were simply trying to correct the plant balances as recorded in the G/L to those balances as recorded in the annual report.

Staff also performed an analysis of Accumulated Depreciation and noted that: (1) the FPSC adjustments for the prior FPSC Order #1823 (1993) had not been posted to the G/L; (2) accumulated depreciation in the G/L was based upon an accelerated method of depreciation (for tax purposes); and, (3) company had not posted its 1995 year-end adjusting entries (as of the end of field work).

AUDITOR OPINION:

Staff scheduled all plant additions, as recorded in the general ledger (G/L) and made adjustments to the G/L balances using company's year-end adjusting entry. The adjusted G/L balance agreed to the postings as they appeared in the company's annual report. When applicable, staff made adjustments to annual report activity.

The adjustment, to reconcile the G/L plant balances at 6/30/96 and the staff computation of plant balances at 6/30/96, is shown below:

<u>Year</u>	<u>A/C #</u>	<u>Account Title</u>	<u>Type</u>	<u>Amount</u>
1992	362	Special Coll. Structures	STF	(6,000)
1993	354	Structures & Improvements	STF	30
	371	Pumping Equipment	STF	(619)
	397	Miscellaneous Equipment	YE	(95)
1994	354	Structures & Improvements	STF	983
	371	Pumping Equipment	STF	1,277
	380	Treatment & Disposal Equip	STF	(2,192)
1995	354	Structures & Improvements	YE	829
			YE	(33,894)
			STF	37,623
	380	Treatment & Disposal Equip	YE	(1,650)
			STF	(5,562)
	371	Pumping Equipment	STF	2,500
	397	Miscellaneous Equipment	STF	79
1996	354	Structures & Improvements	STF	(1,247)
	380	Treatment & Disposal Equip	STF	(5,005)
		Unreconciled Amt		485
		Total Adjustments		----- \$12,458 -----

The above adjustments were the result of the following items:

- 1) Reclassifications to expense from plant
- 2) Reclassifications from expense to plant
- 3) Adjustments to payments on acct to invoiced amounts
- 4) Duplicate postings to the G/L
- 5) Unsubstantiated amounts posted to the G/L

As a result of: the audit adjustments to plant in service, company's use of an accelerated depreciation rate, and failure of the company to record its year-end and FPSC ordered adjustments, staff had to recompute accumulated depreciation. Total staff adjustment to the G/L balance for accumulated depreciation at 6/30/96, using Commission prescribed rates, is \$12,534.

AUDIT DISCLOSURE NO. 7

SUBJECT: ANALYSIS OF ADJUSTMENTS TO NET OPERATING INCOME (NOI)

STATEMENT OF FACT:

Staff performed an analysis of utility expenses for the period 7/1/95 to 6/30/96.

AUDITOR OPINION:

During the analysis of utility expenses, staff noted the following occurrences:

- (1) Utility received numerous invoices from one contractor - Mike Putch. According to the invoice description, the vendor provided the following services: construction, major repair, chemicals, monthly and annual testing, and recurring repair and maintenance charges. As a result of the large costs being incurred, utility accumulated a payable balance and began making payments on account. These payments were recorded in either an expense account or a plant account (with a corresponding credit to cash). However, the recorded payment distribution between accounts, did not coincide with the actual account distribution, based upon the invoice description.

The above description also applies to other vendors.

- (2) Utility misclassified expenditures between expense accounts.
- (3) Utility misclassified expenditures as capital improvements.
- (4) Utility failed to post expenses incurred, but not paid
- (5) Utility incurred expenses which were paid by a related party.
- (6) Out of period items (these adjustments were made due only to the test period selected by staff)

Staff made adjustments to properly reflect the account balances for the services being provided. The staff summary of adjustments is as follows:

<u>A/C #</u>	<u>Account Title</u>	<u>Type Adj</u>	<u>Amount</u>	
<u>O&M Expenses</u>				
7302	Mike Putch-Oper.	1		
7303	Mike Putch-Repair	1	(\$ 760.87)	
7110	Sludge Removal	3	2,485.25	
7201	Postage	5	907.00	
7180	Chemicals	2	624.64	
7150	Purchased Power	2	75.25	
		2	12.84	
7304	Site Mowing	6	(363.13)	
7756	Legal	3	110.00	
7301	Bookkeeping	1	(54.00)	
7400	Rent	6	(300.00)	
765	Regulatory Comm Exp	4	2,400.00	
		2	(1,636.28)	\$3,500.70
705	Taxes Other Than Income	4		
		6	1,767.45	
		2	12.46	
	(Penalty & Interest)	2	1,636.28	
			(101.84)	\$3,314.35

**INDIAN SPRINGS UTILITIES, INC
STAFF COMPUTATION OF RATE BASE
AT 6/30/96**

ACCOUNT TITLE	BALANCE PER BOOKS	STAFF ADJUSTMENTS	Description	STAFF ADJUSTED BALANCE @ 6/96
Depreciable Plant in Service	190,570	12,458 (A)	Disc #6	182,927
		(20,101) (B)	See Below	
Land and Land Rights	3,000			3,000
Construction Work in Progress	0			0
Contributions in Aid of Construction	0	(75,241) (C)	Excpt #1	(75,141)
		100 (B)	See Below	
Accumulated Depreciation	(77,229)	12,534 (A)	Disc #6	(61,255)
		3,440 (B)	See Below	
Accumulated Amortization of CIAC	0	40,697 (C)	Excpt #1	39,424
		(1,273) (B)	See Below	
Working Capital Allowance	4,993	438 (D)	See Below	5,431
		(26,948)		
Rate Base-Wastewater	121,334			94,386

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- (A) TO ADJUST BOOKS TO AUDIT ADJUSTED TOTAL
 (B) AVERAGING ADJUSTMENT
 (C) TO RECORD STAFF COMPUTATION. ITEM NOT RECORDED ON COMPANY BOOKS
 (D) TO RECORD STAFF COMPUTED WORKING CAPITAL ALLOWANCE @ 1/8 O&M EXPENSE (\$43,444 / 8)

INDIAN SPRINGS UTILITIES, INC.
 STAFF COMPUTATION OF NET OPERATING INCOME
 FOR THE 12 MONTHS ENDED 6/30/96

ACCOUNT TITLE		BALANCE PER BOOKS	STAFF ADJUSTMENTS		Description	STAFF ADJUSTED BALANCE @ 6/96	PRO- FORMA ITEMS	Description	PRO- FORMA BALANCE
SEWER REVENUES	12,41	(38,089)	3,990	(A)	Excpt #1	(34,099)			(34,098.67)
EXPENSES									
OPERATION & MAINTENANCE	12,43	39,943	3,501	(A)	Disc #7	43,444	5,888	(B) Disc #2	49,331.56
TAXES OTHER THAN INCOME	12,53	88	3,314	(A)	Disc #7	3,402			3,401.79
DEPRECIATION EXPENSE	51	0	6,881	(A)	Excpt #1	6,881			6,881.00
AMORTIZATION EXPENSE	20	0	(2,457)	(A)	Excpt #1	(2,457)			(2,457.00)
TOTAL EXPENSES		40,031	11,239			51,270	5,888		57,157
NET OPERATING (INCOME) LOSS		1,942	15,229			17,171			23,059

(A) TO ADJUST BOOKS TO AUDIT ADJUSTED TOTAL
 (B) TO ADD PROFORMA EXPENSES

INDIAN SPRINGS UTILITIES, INC.
STAFF COMPUTATION OF CAPITAL STRUCTURE
AT 6/30/96

DESCRIPTION	(1) BALANCE PER BOOKS @06/30/95	(2) BALANCE PER BOOKS @06/30/96	(3) AUDIT ADJUST	(4) AUDIT BALANCE @06/30/96	(5) AVERAGE PER BOOKS @06/30/96	(6) RATIO	(7) COST RATE	(8) WEIGHTED COST OF CAPITAL
COMMON EQUITY (A)	25,265	25,058		25,058	25,161	0.403478	11.85313	4.78
COMMON STOCK	1,000	1,000		1,000	1,000			
RETAINED EARNINGS	(69,883)	(70,090)		(70,090)	(69,986)			
PAID IN CAPITAL (B)	94,148	94,148		94,148	94,148			
PREFERRED STOCK	0	0		0				
LONG TERM DEBT	0	0		0				
SHORT TERM DEBT	21,200	53,200		53,200	37,200	0.596522	9.00	5.37
INTERCO NOTES	28,600	33,600	(33,600) (C)	0				
CUSTOMER DEPOSITS	675	675	(675) (D)	0				
OTHER	0	0		0				
TOTAL	75,740	112,533		78,258	62,361	100.00%		10.15

(A) Common Equity is the sum of the sub items listed below it.

(B) Per order PSC-93-1823	68,924	
Addition L. Schrade	25,000	
	<u>93,924</u>	
Per books	94,148	difference immaterial

(C) Transfers of money between related companies (same ownership).
No supporting debt instruments and no interest or repayment schedule.

(D) Per Utility all deposits returned to customers in march, 1995.

(E) Cost Rate based upon Leverage Formula per Order No. PSC-95-0982-FOF-WS
Return on Common Equity = 9.05% + (1.131/403478)

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
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Public Service Commission

August 14, 1996

Jeff Shrade, President
Indian Springs Utilities, Inc.
7655 West Gulf to Lake Highway, Suite 14
Crystal River, Florida 34429-7961

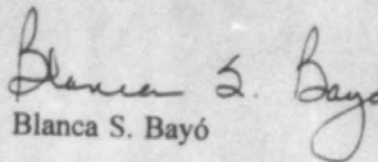
RE: Docket No. 960561-SU -- Indian Springs Utilities, Inc.
Staff-assisted Rate Case Audit Report - Period Ended June 30, 1996
Audit Control #96-143-3-1

Dear Mr. Shrade:

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.

Thank you for your cooperation.

Sincerely,


Blanca S. Bayó

BSB/mas
Enclosure
cc: Public Counsel