


**Florida Public Service Commission**  
**Audit Report**  
**For the Period Ending October 31, 1996**  
**Field Work Completed**  
**February 12, 1997**

**RHV Utility, Inc.**  
**Homosassa Springs, Florida,**  
**Citrus County**

**Staff-Assisted Rate Case Audit**  
**Docket Number 961220-SU**  
**Audit Control Number 96-318-3-1**

  
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## **I. Executive Summary**

**AUDIT PURPOSE:** We have applied the procedures described in Section II of this report to prepare the attached exhibits of Rate Base, Net Operating Income and Capital Structure for the twelve-month period ending October 31, 1996, in support of the Staff-Assisted Rate Case, Docket Number 961220-SU. Also, the company's books and records were examined to determine compliance with Commission directives and to disclose any transactions or events that may influence Commission decision.

**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 exhibits of Rate Base, Net Operating Income, and Capital Structure for the twelve-month period ending October 31, 1996, represent RHV Utility, Inc.'s books and records that are not maintained in substantial compliance with Commission directives. The expressed opinions extend only to the scope of work described in Section II of the report.

### **SUMMARY FINDINGS:**

#### **Exceptions:**

1. The company did not adjust its books to prior Commission Order PSC-95-0961-FOF-SU.
2. The company's books and records were not maintained in compliance with NARUC.
3. The company failed to record \$10,203 in taxes other than income.

4. The company recorded \$500 in insurance expense for a policy that it did not purchase.
5. The company recorded \$5,331 in operations and maintenance for expenditures that were non-recurring in nature.
6. The company recorded \$38,105 as capital additions. The expenditures were for repairs to plant equipment that are not of a recurring nature.
7. The company recorded \$7,785 in unsupported plant additions.
8. The company recorded \$17,844 for operations and maintenance expense which is of an imprudent nature.
9. The company recorded \$38,576 in operations and maintenance expense which was for non-recurring items.
10. The company expensed items that were capital assets.
11. The company did not record \$20,160 of plant equipment that should have been retired.
12. The company failed to record the proper amount of rate case expense for the twelve months ended October 31, 1996, which was \$5,037.
13. The company failed to record the proper amount of contributions-in-aid-of-construction and the associated amortization. The appropriate amounts were \$736,534 and \$334,097, respectively.
14. The company failed to record the proper amount of accumulated depreciation at October 31, 1996, which was \$433,149.

15. The company failed to disburse the annual settlement of interest accrued to ratepayers which was \$583.
16. The company did not record the proper amount of revenues for the twelve months ended October 31, 1996. The amount of revenues recorded by the company was understated by \$1,131.

**Disclosures:**

1. The company obtained a loan from shareholders at 18% per annum.
2. The company was billed by the Citrus County Utilities Department in the amount of \$6,184 for emergency plant operation.
3. The company's Board of Directors is paid \$75 per director for monthly meetings.
4. The company has a tentative agreement to obtain an \$850,000 loan for future plant expansion.
5. Reduce \$11,600 for management fees and \$1,612 for transportation expense if the company accepts the bid from an independent company to perform the above duties.
6. The company has received a bid in the amount of \$12,600 for accounting services. It only recorded \$11,264.
7. The company projected \$45,000 in future legal costs involved with the Department of Environmental Protection.

## II. Audit Scope

The opinions contained in this report are based on the audit work described below. When used in this report, the following definition shall apply.

**Compiled -** The audit staff reconciled exhibit amounts with the general ledger, visually scanned accounts for error or inconsistency, disclosed any unresolved error, irregularity, or inconsistency, and, except as noted, performed no other audit work.

**RATE BASE:** Reviewed utility plant and contributions-in-aid-of-construction account balances from June 30, 1994. Reconciled plant balances authorized in FPSC Order PSC-95-0961-FOF-SU issued August 7, 1995, to the June 30, 1994 general ledger balance. Tested 100 percent of the plant account balances. Recomputed accumulated depreciation and contributions-in-aid-of-construction balances from June 30, 1994, forward. Read company's 1994 and 1995 tax returns for additional unrecorded plant.

**NET OPERATING INCOME:** Compiled utility revenue and operating and maintenance account balances for the twelve months ended October 31, 1996. Tested for out-of-period expenses.

**CAPITAL STRUCTURE:** Compiled equity capital and liability account balances as of October 31, 1996.

**AUDIT EXCEPTION NUMBER 1**

**SUBJECT: ADJUSTMENT TO PRIOR ORDER**

**FACTS:** The company's records do not agree with prior Commission Order PSC-95-0961-FOF-SU, issued August 7, 1995.

**OPINION/RECOMMENDATION:** The company did not adjust its books to record Commission-ordered adjustments as of June 30, 1994. Audit staff recommends that the Commission order the company to comply with Order PSC-95-0961-FOF-SU. See attached Schedule A for the necessary adjustments.



AUDIT EXCEPTION NO. 1-SCHEDULE A

	(1) BALANCE PER ORDER 6/30/94	BALANCE PER COMPANY 6/30/94	DIFFERENCE
Utility Plant In Service	883,721	93,712	790,009
Land	85,967	10,000	75,967
CIAC	(735,584)	0	(735,584)
Accum. Depreciation	(420,541)	(3,514)	(417,027)
Amortization of CIAC	292,503	0	292,503

(1) Per order #PSC-95-0961-FOF-SU

Plant In Service by Differences

Acct. #	Description	Plant 6/30/94	Depreciation 6/30/94
354	Structures	12,135	(13,210)
360	Coil. Sewers-force	80,071	(34,748)
361	Coil. Sewers-grav	225,956	(100,366)
362	Spec. Coil. Struc.	169,033	(103,594)
364	Flow Measuring Devices	933	(133)
370	Receiving Wells	4,302	(1,156)
380	Treatment & Disposal	295,879	(163,725)
390	Office Furniture	1,899	(63)
	<b>Totals</b>	<b>790,009</b>	<b>(417,027)</b>

Plant In Service per Order

Acct. #	Description	Plant 6/30/94	Depreciation 6/30/94
354	Structures	13,575	(13,321)
360	Coil. Sewers-force	89,569	(36,041)
361	Coil. Sewers-grav	252,780	(101,264)
362	Spec. Coil. Struc.	189,084	(104,467)
364	Flow Measuring Devices	1,043	(134)
370	Receiving Wells	4,812	(1,166)
380	Treatment & Disposal	330,977	(166,106)
390	Office Furniture	1,901	(63)
	<b>Totals</b>	<b>883,721</b>	<b>(420,541)</b>

**AUDIT EXCEPTION NUMBER 2**

**SUBJECT: COMPANY BOOKS AND RECORDS**

**FACTS:** The company's ledgers were not structured by account number or title as per NARUC, National Association of Regulatory Utility Commissioners. The company records also had various entries that were unsupported, misclassified, or omitted.

Per NARUC, National Association of Regulatory Utility Commissioners, Accounting Instruction Number 2,

All books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner 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.

**OPINION/RECOMMENDATION:** The audit staff recommends to the Commission that the company should be required to maintain its books and records in accordance with NARUC directives.

**AUDIT EXCEPTION NUMBER 3**

**SUBJECT: TAXES OTHER THAN INCOME**

**FACTS:** The company recorded the following amounts for taxes other than income for the twelve months ended October 31, 1996:

	<u>WASTEWATER</u>
Regulatory Assessment Fees	\$ 0.00
Real Estate	0.00
Tangible Property	0.00
Intangible Property	198.37
Corporate Reinstatement Fees	<u>575.00</u>
	\$773.37

The \$575 corporate reinstatement fees include \$375 of penalties assessed by the Florida Department of State.

**OPINION/RECOMMENDATION:** The audit staff would recommend that since \$375 were penalties due to a late filing of an annual application the company should not recover the cost.

The company failed to record various other taxes that are recurring in nature. Audit staff further recommends the following increases in taxes other than income for wastewater:

	<u>WASTEWATER</u>
Regulatory Assessment Fees	\$ 5,242.00
Real Estate-Property	716.00
Real Estate-Tangible	<u>4,620.00</u>
Total Increases	\$ 10,578.00
Less:	
Reinstatement Fee Penalty	(\$ 375.00)
Total Net Adjustment	\$ 10,203.00

**AUDIT EXCEPTION NUMBER 4**

**SUBJECT: INSURANCE EXPENSE**

**FACTS:** The company recorded \$500 for insurance expense for the twelve months ended October 31, 1996.

The company did not have any insurance policies in effect for the twelve months ended October 31, 1996.

**OPINION/RECOMMENDATION:** Since the company did not purchase any type of insurance, it should not be allowed to recover the recorded expense. Therefore, audit staff recommends to the Commission a \$500 reduction in wastewater operations and maintenance expense to remove all insurance expense that was recorded by the company.

**AUDIT EXCEPTION NUMBER 5**

**SUBJECT: NON-RECURRING O & M EXPENSES**

**FACTS:** The company recorded in the amount of \$5,331 for wastewater operations and maintenance expense which was for pipeline repairs for the twelve months ended October 31, 1996.

Per Rule 25-30.433 (8), F.A.C., "Non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified."

**OPINION/RECOMMENDATION:** The above-mentioned expenditures were for major repairs to plant equipment that are not of a recurring nature. The expenditures came as a result of various accidents to existing plant equipment.

Audit staff believes that these expenditures should have been recorded in a deferred asset account and amortized over a five-year period.

The audit staff recommends to the Commission that operations and maintenance be reduced by \$4,265 ( $\$5,331 \times .80$ ). See attached Schedule B for further analysis.

AUDIT EXCEPTION B-SCHEDULE B

Date	Acct #	Invoice #	Vendor	Amount per Company	(1) Amount per Audit	Difference	Description
4/1/98	730						
11/30/95	730	7082	Mike Putch #10				
2/16/98	730	3690	Mike Putch#57	1,200.00	240.00	(960.00)	Repair force main
2/9/98	730	9998	Mike Putch#2	1,478.00	295.80	(1,183.20)	Repair pressure line
2/10/98	730	9993	Mike Putch#3	300.00	60.00	(240.00)	Riverside repair-non recurring
2/13/98	730	9994	Mike Putch#3	190.00	30.00	(120.00)	Riverside repair-non recurring
2/15/98	730	9991	Mike Putch#3	442.48	86.49	(353.97)	Riverside repair-non recurring
		9995	Mike Putch#3	785.00	157.00	(628.00)	Riverside repair-non recurring
				975.00	195.00	(780.00)	Riverside repair-non recurring
				5,331.48	1,086.29	(4,265.17)	

**AUDIT EXCEPTION NUMBER 6**

**SUBJECT: CAPITALIZED NON-RECURRING EXPENSES**

**FACTS:** The company recorded \$39,460 as capital additions which were for pipeline repairs to wastewater utility plant-in-service for the twelve months ended October 31, 1996.

Per Rule 25-30.433 (8), F.A.C., "Non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified."

**OPINION/RECOMMENDATION:** The above-mentioned capitalized items were for major repairs to plant equipment that are not of a recurring nature. The expenditures were a result of an accident to existing plant equipment.

Audit staff recommends to the Commission that its wastewater utility plant-in-service be reduced by \$39,460 and increase wastewater operations by \$7,892 ( $\$39,460 \times .20$ ) to properly record the amount as a deferred asset and amortized over five years. (Accumulated Depreciation is discussed in Exception Number 14.)

**AUDIT EXCEPTION NUMBER 7**

**SUBJECT: UNSUPPORTED UPIS**

**FACTS:** The company recorded the following amounts in utility plant-in-service but was unable to provide any supporting documentation:

Utility plant-in-service (1/1/96)	\$139,121
Utility plant-in-service (12/31/95)	<u>131,336</u>
Difference	\$ 7,785

**OPINION/RECOMMENDATION:** The company could not explain the difference between the two above amounts. The audit staff recommends to the Commission a \$7,785 reduction in wastewater utility plant-in-service to remove the unsupported entry.



**AUDIT EXCEPTION NUMBER 8**

**SUBJECT: O & M EXPENSES**

**FACTS:** The company recorded \$20,412 for wastewater operations and maintenance expense for the twelve months ended October 31, 1996. Included in the \$20,412 were charges for telephone service, chemicals, legal services, etc.

**OPINION/RECOMMENDATION:** Included in the \$20,412 were charges for finance charges, duplicate entries, recording errors, and journal entries without proper support which totaled \$17,844. The Commission should require the company to reduce its wastewater operations and maintenance expense by \$17,844 to remove all the entries made by the company.

For further analysis, see attached Schedule C.

AUDIT EXCEPTION NUMBER 6-SCHEDULE C

DATE	ACCT #	INVOICE #	DESCRIPTION	AMOUNT PER COMPANY	AMOUNT PER AUDIT	DIFFERENCE
01/88	718	837631880	Florida Power	585.32	375.19	(190.13) Purch. powr /duplicate pay.
3/31/88	718	3488	Davis Hardware#38	422.21	400.00	(22.21) Chemicals & finance charges
6/13/88	718	5444	Davis Hardware	688.82	638.00	(50.82) Chemicals/dp finance chgs
2/29/88	718	3085	Davis Hardware#42	482.21	425.00	(57.21) Chemicals/dp finance chgs
8/30/88	718	4287	Davis Hardware#37	140.47	121.00	(19.47) Chemicals/dp finance chgs
11/30/88	730	3872	Mike Putsch#57	100.00		(100.00) Charge not in test period
11/30/88	730	3871	Mike Putsch#57	314.80		(314.80) Charge not in test period
8/15/88	730	3833	Mike Putsch#57	150.00		(150.00) Charge not in test period
8/18/88	730	48577	Mike Putsch#57	84.85		(84.85) Charge not in test period
10/18/88	730	3865	Mike Putsch#57	50.00		(50.00) Charge not in test period
11/30/88	730	3873	Mike Putsch#57	118.00		(118.00) Charge not in test period
11/30/88	730	3874	Mike Putsch#57	175.00		(175.00) Charge not in test period
8/31/88	730	83188	Mike Putsch#8	5,843.88		(5,843.88) Duplicate entry/in plant already
8/31/88	730		A/E accrue AP 831	1,788.10		(1,788.10) Duplicate/P&I, Inc.
8/30/88	730		Accrue legal expense	3,077.53		(3,077.53) Legal services-duplicate
10/1/88	730	100188	Mike Putsch #11	538.00	538.00	(400.00) Posting error
1/31/88	730		Mike Putsch #8	2,028.00		(2,028.00) Prior period adj. - no support
11/30/88	730	1583	Mike Putsch#57	130.20		(130.20) Unexplained differ. per Co.
1/8/88	775	1584	Mac Signs	80.88	25.44	(25.44) Printing expenses/dp balce
1/23/88	775	1800	United Telephone	82.54	48.08	(44.46) Telephone services/duplicate
8/30/88	730		Reclass IONL lab expense	857.00		(857.00) Water testing
8/30/88	730		A/E Accrue AP 830	438.00		(438.00) Water testing
12/31/88	718		A/E Accrue Dec. AP	150.00		(150.00) Chemicals
1/23/88	730	4849	Mike Putsch #8	843.00		(843.00) Already in plant-duplicate entry
1/22/88	730	4848	Mike Putsch #8	1,451.00		(1,451.00) Already in plant-duplicate entry
			Totals	20,412.81	2,586.71	(17,843.80)

**AUDIT EXCEPTION NUMBER 9**

**SUBJECT: ENGINEERING & LEGAL FEES**

**FACTS:** The company recorded the following amounts for wastewater operations and maintenance expense:

Engineering	\$28,636
Legal	<u>9,940</u>
Total	\$38,576

Per Rule 25-30.433 (8), F.A.C., "Non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified."

**OPINION/RECOMMENDATION:** The above-mentioned expenditures are as a result of the company's litigation with the Florida Department of Environmental Protection. The outcome of these proceedings cannot be ascertained at this time.

Since these expenditures are not of a recurring nature, audit staff recommends to the Commission that \$30,861 ( $38,576 \times .80$ ) be removed from wastewater operations and maintenance expense to properly record as a deferred asset and amortized over five years.

**AUDIT EXCEPTION NUMBER 10**

**SUBJECT: EXPENSED CAPITAL ASSETS**

**FACTS:** The company recorded \$17,694 in wastewater operations and maintenance for the twelve months ended October 31, 1996. Items recorded included new motors, pumps, and a chlorine tank. Of the above \$17,694, \$11 is for finance charges.

Per Rule 25-30.140 (2), F.A.C., "Any replacement with a retirement unit that materially enhances the value, use, life, expectancy, strength or capacity of the asset prior to replacement shall be capitalized."

**OPINION/RECOMMENDATION:** The audit staff recommends to the Commission that the company reduce its wastewater operations and maintenance by \$17,694 and increase its utility plant-in-service by \$17,683 (\$17,694-\$11) to properly account for these transactions. See Schedule D for further analysis.

Accumulated depreciation is discussed in Audit Exception Number 14.

AUDIT EXCEPTION NO. 18-SCHEDULE D

Date	Acct. #	Invoice #	Vendor	Amount per Company	Amount per Audit	Difference	Description
				877.50			(877.50) Pump replacement
2/7/86	730	9877	Mike Pulch#3	890.00			(890.00) Pump replacement
2/1/86	730	9888	Mike Pulch #6	1,029.00			(1,029.00) Pump motor replacement
11/30/85	730	3991	Mike Pulch#57	1,825.00			(1,825.00) Replace hydromatic pump
11/30/85	730	3909	Mike Pulch#57	1,190.00			(1,190.00) Replace lift station pump
9/6/86	730	3013	Mike Pulch#57	726.50			(726.50) Diffuser
07/30/86	730	726	M. Pulch #7	3,050.00			(3,050.00) Hydromatic pump
07/24/86	730	719	M. Pulch #7	2,015.00			(2,015.00) Hydromatic Pump
07/24/86	730	710	M. Pulch #7	5,725.00			(5,725.00) Blower motor
07/24/86	730	724	M. Pulch #7	906.44			(906.44) Chlorine tank
8/31/86	718	4033	Devils Hardware#38	17,894.44	0.00	(17,894.44)	
			Totals				

**AUDIT EXCEPTION NUMBER 11**

**SUBJECT: UNRECORDED RETIREMENTS OF PLANT ASSETS**

**FACTS:** The company did not record \$20,160 of retired plant equipment.

Per NARUC, Class C, National Association of Regulatory Commissioners, Accounting Instruction, 4D,

When an item is retired, account 108 - Accumulated depreciation and Amortization of Utility Plant in Service, shall be charged and the appropriate plant accounts shall be credited with the entire recorded original cost of plant retired regardless of the amount of depreciation which has been accumulated for this particular item of plant, . . .

**OPINION/RECOMMENDATION:** The audit staff recommends to the Commission that the company be required to reduce wastewater plant-in-service by \$20,160 to record the retired plant equipment. (Accumulated Depreciation is discussed in Audit Exception Number 14.)

**AUDIT EXCEPTION NUMBER 12**

**SUBJECT: RATE CASE EXPENSE**

**FACTS:** The company recorded \$22,293 in wastewater operations and maintenance expense for rate case expense for the twelve months ended October 31, 1996. The \$22,293 amount includes a duplicate legal charge of \$2,143.

The company recorded the entire amount of current rate case expense expenditures to wastewater operations and maintenance.

Per Chapter 367.0816, Florida Statutes,

The amount of rate case expense determined by the commission pursuant to the provisions of this chapter to be recovered through a public utilities rate shall be apportioned for recovery over a period of 4 years. At the conclusion of the recovery period, the rate of the public utility shall be reduced immediately by the amount of rate case expense previously included in rates.

**OPINION/RECOMMENDATION:** The audit staff recommends to the Commission that the amount of rate case expense to be recovered is \$5,037 ( $\$22,293 - \$2,143 \times .25$ ) and further recommends wastewater operations and maintenance be reduced by \$22,293 to remove the previous entry made in error.

**AUDIT EXCEPTION NUMBER 13**

**SUBJECT: CIAC/CIAC AMORTIZATION**

**FACTS:** The company did not record \$735,584 for contributions-in-aid-of-construction as required by Commission Order PSC-95-0961-FOF-SU.

The company did not record \$292,503 for amortization of contributions-in-aid-of-construction as required by Commission Order PSC-95-0961-FOF-SU.

The company recorded \$950 as CIAC additions for the period June 30, 1994 through October 31, 1996.

Per NARUC, Class C, Balance Sheet, Account 272, "This account shall reflect the amortization accumulated on account 271 - Contributions in Aid of Construction, if recognized by the Commission."

**OPINION/RECOMMENDATION:** The audit staff calculated CIAC and CIAC amortization at October 31, 1996, to be \$736,534 and \$334,097, respectively. The associated CIAC amortization expense for the twelve months ended October 31, 1996, is \$31,229.

The audit staff recommends to the Commission the company be required to increase contributions-in-aid-of-construction by \$735,584 (\$736,534-\$950) and amortization of CIAC by \$334,097 to comply with previous Commission and NARUC directives.



**AUDIT EXCEPTION NUMBER 14**

**SUBJECT: ACCUMULATED DEPRECIATION**

**FACTS:** The company recorded \$37,384 for accumulated depreciation at October 31, 1996.

**OPINION/RECOMMENDATION:** The audit staff recalculated accumulated depreciation per Rule 25-30.140, F.A.C., to be \$490,589. The associated depreciation expense for the twelve months ended October 31, 1996, is \$39,069.

The audit staff recommends that the Commission increase wastewater accumulated depreciation by \$453,205 (\$490,589-\$37,384).

**AUDIT EXCEPTION NUMBER 15**

**SUBJECT: CUSTOMER DEPOSITS**

**FACTS:** The company recorded \$1,950 in customer deposits at October 31, 1996. Included in the above amount is \$315 in accrued interest from December 1, 1992 through June 30, 1994.

Per Rule 25-30.311, F.A.C., (4A),

Each utility which requires deposits to be made by its customers shall pay a minimum interest on such deposits of 6 percent per annum. The utility shall pay an interest rate of 7 percent per annum on deposits of nonresidential customers qualifying under subsection (5) below when the utility elects not to refund such a deposit after 23 months.

Per Rule 25-30.311, F.A.C., (4B), "The deposit interest shall be simple interest in all cases and settlement shall be made annually, either in cash or by credit on the current bill."

The company has not paid any interest to its depositors.

**OPINION/RECOMMENDATION:** The audit staff believes that the company is in violation of the above rule. The audit staff recommends to the Commission that the company pays the required interest to its ratepayers. The audit staff calculated the amount of interest from July 1, 1994 through October 31, 1996, to be \$268 ( $\$1,635 \times .07 / 12 \text{ months} \times 28 \text{ months}$ ). The audit staff further recommends that the company pays an additional \$315 for the period from December 1, 1992 through June 30, 1994.

**AUDIT EXCEPTION NUMBER 16**

**SUBJECT: REVENUES**

**FACTS:** The company recorded \$115,366 in revenues for the twelve months ended October 31, 1996.

**OPINION/RECOMMENDATION:** The audit staff recalculated revenues using the most recent Commission-approved tariffs. The amount of revenues per audit was \$116,497.

The audit staff recommends to the Commission that the company be required to increase revenues by \$1,131 (\$116,497-\$115,366) to record the proper amount of revenues for the period.

**AUDIT DISCLOSURE NUMBER 1**

**SUBJECT: INTEREST RATE ON LOAN FROM SHAREHOLDERS**

**FACTS:** The company obtained a loan from its shareholders in the amount of \$30,000 at 18% per annum.

**OPINION/RECOMMENDATION:** The audit staff believes that the rate of interest assigned to this loan appears high. The audit staff defers opinion on what the appropriate rate of interest should be to the analyst assigned to this rate case proceeding.

**AUDIT DISCLOSURE NUMBER 2**

**SUBJECT: PLANT REPAIRS**

**FACTS:** The company's wastewater plant was temporarily operated by the Citrus County Utilities Department when a dispute over payment between the company and its contracted plant operator occurred. The plant operator discontinued service as a result of the dispute.

The amount of the charges by the Citrus County Utilities Department for the period it operated the company's plant was \$6,184.

**OPINION/RECOMMENDATION:** The company had not paid several charges submitted by its contracted operator which he had rendered services for. Subsequently, the operator discontinued providing service.

The audit staff defers an opinion to the analyst assigned to this rate case proceeding as to what the appropriate amount of these costs should be recovered by the company. Audit staff did not include these costs in wastewater operations and maintenance expense.

**AUDIT DISCLOSURE NUMBER 3**

**SUBJECT: DIRECTORS' FEES**

**FACTS:** The company currently has seven board members. Each is paid \$75 to attend a monthly meeting.

**OPINION/RECOMMENDATION:** The above information is presented for informational purposes and for the benefit of the analyst assigned to this rate case proceeding.

**AUDIT DISCLOSURE NUMBER 4**

**SUBJECT: FUTURE PLANT FINANCING**

**FACTS:** The company has a tentative agreement to acquire a loan in the amount of \$850,000 for future plant expansion. The interest rate the loan will carry is 12 percent annually.

The company has no formal bids on the future costs of plant construction.

**OPINION/RECOMMENDATION:** The above information is presented for informational purposes only. The audit staff defers any opinion to the analyst assigned to this rate case proceeding.

**AUDIT DISCLOSURE NUMBER 5**

**SUBJECT: O & M EXPENSES**

**FACTS:** The company records indicate the following amounts for the twelve months ended October 31, 1996:

Management Fees	\$11,600
Transportation Expense	<u>1,612</u>
Total	\$13,212

**OPINION/RECOMMENDATION:** The company incurred these expenditures as a result of having a shareholder, Mr. Doug Lewis, perform the operational and administrative duties of the utility. The utility, however, has entered into an agreement with an independent company to possibly assume the above duties.

The audit staff recommends to the Commission that if Mr. Lewis is to continue to perform the above duties then the utility should be allowed to recover the above expenditures. If Mr. Lewis relinquishes these duties, then the audit staff recommends that no recovery of these costs be allowed.



**AUDIT DISCLOSURE NUMBER 6**

**SUBJECT: ACCOUNTING FEES**

**FACTS:** The company recorded \$11,264 in accounting fees for the twelve months ended October 31, 1996. Its accounting firm submitted a bid for \$1,050 for future charges that the company has not yet accepted. The total annual charges are \$12,600 ( $\$1,050 \times 12$  months).

**OPINION/RECOMMENDATION:** If the company decides to accept the above proposal, then the Commission should require the company to record an additional \$1,336 ( $\$12,600 - \$11,264$ ).

**AUDIT DISCLOSURE NUMBER 7**

**SUBJECT: FUTURE LEGAL EXPENSE**

**FACTS:** The company has received an estimate of \$45,000 to continue litigation with the Department of Environmental Protection from the law firm de la Parte, Gilbert, & Bales.

**OPINION/RECOMMENDATION:** These facts are provided for informational purposes only. The audit staff expresses no opinion.

RHV UTILITY, INC.  
 STAFF-ASSISTED RATE CASE  
 RATE BASE BALANCES - WASTEWATER  
 PERIOD ENDED 10/31/96  
 EXHIBIT I

DESCRIPTION	BALANCE PER BOOKS @ 10/31/96	AUDIT EXCEPTIONS	Refer to	BALANCE PER AUDIT @ 10/31/96	AVERAGE BALANCE @ 10/31/96
UTILITY PLANT IN SERVICE	180,875	740,286	(3)	921,161	915,043
LAND/NON DEPRECIABLE ASSET	10,000	75,967	E-1	85,967	85,967
PLANT HELD FOR FUTURE USE	0	0		0	0
C. I. A. C.	(950)	(735,584)	E-13	(736,534)	(736,059)
C. W. I. P.	16,026	0		16,026	16,026
ACCUMULATED DEPRECIATION	(37,384)	(453,205)	E-14	(490,589)	(474,349)
AMORTIZATION - C. I. A. C.	0	365,326	E-13	365,326	321,097
WORKING CAPITAL (1)	0	9,345		9,345	9,345
<b>TOTALS</b>	<b>\$168,567</b>	<b>\$2,135</b>		<b>\$170,702</b>	<b>\$137,070</b>

FOOTNOTES:

1. 1/3 of Operation and Maintenance Expenses
2. Audit adjustments do not include audit disclosures.
3. See Audit Exceptions 1,6,7,10, and 11

RHV UTILITY, INC.  
 STAFF-ASSISTED RATE CASE  
 NET OPERATING INCOME - WASTEWATER  
 PERIOD ENDED 10/31/96 EXHIBIT II

DESCRIPTION	BALANCE PER BOOKS @ 10/31/96	AUDIT EXCEPTIONS	Refer To	BALANCE PER AUDIT @ 10/31/96
OPERATING REVENUES	115,366	1,131	E-16	116,497
OPERATING EXPENSES:				
O & M EXPENSE	155,292	(80,528)	(3)	74,764
DEPRECIATION EXPENSE	32,068	6,971	E14	39,069
TAXES OTHER THAN INCOME	773	10,203	E3	10,976
INCOME TAX EXPENSE (1)	0	0		0
AMORTIZATION EXPENSE - CIA	0	31,229	E13	31,229
NET OPERATING PROFIT (LOSS)	<b>(\$72,797)</b>	<b>\$95,714</b>		<b>\$22,917</b>

FOOTNOTES:

- (1) - Sub-Chapter S Corporation
- (2) - Audit Adjustments do not include Audit Disclosures.
- (3) - See Audit Exceptions 4,5 ,6,8,9,10 and 12

RHV UTILITY, INC.  
 STAFF-ASSISTED RATE CASE  
 CAPITAL STRUCTURE - WASTEWATER  
 PERIOD ENDED 10/31/96

EXHIBIT III

DESCRIPTION	PER BOOKS @ 10/31/96	AUDIT EXCEPTIONS Refer to	PER AUDIT @ 10/31/96	RATIO	COST RATE	WEIGHTED AVERAGE COST OF CAPITAL
Common Equity	105,744	0 E-1	105,744	76.97%	11.88%	9.14%
Notes Payable	30,000	0 E-1	30,000	21.84%	18.00%	3.93%
Notes Payable	0	0	0	0.00%	10.00%	0.00%
Notes Payable	0	0	0	0.00%	10.00%	0.00%
Notes Payable	0	0	0	0.00%	10.00%	0.00%
Notes Payable	0	0	0	0.00%	10.00%	0.00%
Notes Payable	0	0	0	0.00%	10.00%	0.00%
Notes Payable	0	0	0	0.00%	10.00%	0.00%
Customer Deposits	1,960	(315) E-1	1,635	1.19%	7.00%	0.08%
<b>TOTALS</b>	<b>137,694</b>	<b>(315)</b>	<b>137,379</b>	<b>100.00%</b>		<b>13.15%</b>

FOOTNOTES:

COST RATE BASED ON FPSC ORDER PSC-96-0729-FOF-WS ISSUED 5/31/96.

Return on Common Equity = 9.05% + 1.131/40% =

11.88%

Equity Ratio =  $\frac{-105744}{(105744+30000+1635)}$

=

77.90% Minimum allowed is %40

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

March 6, 1997

Mr. Douglas W. Lewis  
RHV Utility, Inc.  
Post Office Box 2770  
Crystal River, Florida 34423-2770

RE: Docket No. 961220-SU -- RHV Utility, Inc.  
Staff-assisted Rate Case Audit Report  
Audit Control # 96-318-3-1

Dear Mr. Lewis:

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,

A handwritten signature in cursive script that reads "Kay Flynn".

Kay Flynn, Chief  
Bureau of Records

KF/cl  
Enclosure  
cc: Public Counsel