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MEMORANDUM

March 25, 1991

**ORIGINAL  
FILE COPY**

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDIT AND FINANCE (DOUD) *FD*

RE: DOCKET NO. 900966-WS -- HOMOSASSA UTILITIES, INC. (THE WOODS)  
STAFF-ASSISTED RATE CASE AUDIT

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Forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit findings disclose information that may influence the decision process.

Audit was prepared using micro computer and has been recorded on one diskette. The diskette may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this report to:

Homosassa Utilities, Inc.  
Attn: John H. Hotaling, Manager  
6608 Walton Way  
Tampa, FL 33610-5517

FD/sp

Attachment

cc: Chairman Beard  
Commissioner Deason  
Commissioner Easley  
Commissioner Gunter  
Commissioner Wilson  
Bill Talbott, Deputy Executive Director/Technical  
Legal Services  
Division of Auditing and Financial Analysis (Devlin/Hartsfield))  
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202 Blount Street  
Tallahassee, FL 32301

DOCUMENT NUMBER-DATE  
02942 MAR 25 1991  
FPSC-RECORDS/REPORTING

**FLORIDA PUBLIC SERVICE COMMISSION**

**AUDIT REPORT**

**12 MONTHS ENDED DECEMBER 31, 1990**

**FIELD WORK COMPLETED**

**FEBRUARY 27, 1991**

**HOMOSASSA UTILITIES, INC. (SUMTER)**

**SAINT CATHERINE, FLORIDA**

**SUMTER COUNTY**

**STAFF ASSISTED RATE CASE**

**DOCKET NO. 900966-WS**

**AUDIT CONTROL NO. 91-014-2-1**

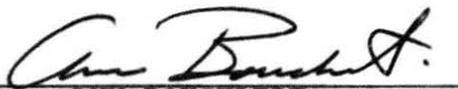
**AUDIT STAFF**

-----  
**PETER BARRETT**  
**NANCY GAFFNEY**

**MINORITY OPINION**

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**YES** \_\_\_\_\_ **NO** PL  
**YES** \_\_\_\_\_ **NO** na

  
\_\_\_\_\_  
**JOCELYN YVONNE STEPHENS**  
**AUDIT MANAGER**

  
\_\_\_\_\_  
**ANN BOUCKAERT**  
**REGULATORY ANALYST SUPERVISOR**  
**TAMPA DISTRICT OFFICE**

DOCUMENT NUMBER-DATE

02942 MAR 25 1991

FPSC-RECORDS/REPORTING

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**I. EXECUTIVE SUMMARY**

**AUDIT PURPOSE:** We have applied the procedures described in Section II of this report, and prepared the appended Rate Base, Net Operating Income, and Capital Structure exhibits for the 12 month period ended December 31, 1990 for Homosassa Utilities, Inc. (Sumter).

**DISCLAIM PUBLIC USE:** This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied on 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 audit standards and produce audited financial statement for public use.

**OPINION:** Subject to Audit Exception 1 - 9, Audit Disclosures 1 - 8, and the procedures described in Section II, the appended Rate Base, Net Operating Income, and Cost of Capital exhibits for the 12 months ended December 31, 1990, represent company books and records.

## II. SCOPE OF WORK PERFORMED

**RATE BASE:** Requested an Original Cost Study, determined additions to plant for the years 1987 to 1990, determined CIAC collected by prior owner, computed accumulated depreciation on 1987 - 1990 plant additions and computed accumulated amortization on staff determined CIAC, using a composite rate of 2.5%; calculated working capital allowance based upon 1/8 of O&M expenses, computed year-end average balances of applicable rate base items. Toured plant and service area with Water and Sewer Engineer. Compared company's charges for service availability to PSC Tariff.

**NET OPERATING INCOME:** Scheduled and classified company's accounts payable for the test period in conformance with NARUC Chart of Accounts, prepared an analysis of account balances to include only documented and verifiable expenditures pertaining to the test period, determined and made adjustments for items not billed to the company by it's affiliate (USA Utilities, Inc.), computed current portion of deferred expense items; computed depreciation and amortization expense based on Rule 25-30.140, determined applicable Taxes Other Than Income for the test period.

**CAPITAL STRUCTURE:** Determined that Cost of Capital could not be prepared using results of staff computed capital structure and rate base.

**OTHER:** Determined company proposed adjustments to expense items, determined that company has been requested to provide service to a RV campground in its service area.

**AUDIT EXCEPTION NO. 1**

**SUBJECT: COMPLIANCE WITH NARUC ACCOUNTING INSTRUCTIONS**

**STATEMENT OF FACTS:**

During the test period, the Company did not maintain accounting books and records.

Rule 25-30.115(1) states "Water and sewer utilities shall...maintain accounts and records in conformity with the 1984 NARUC Uniform Systems of Accounts..."

NARUC, Class C, Accounting Instruction 2A requires "...Books of accounts...shall be kept by the double entry method, on an accrual basis...Each company shall keep its accounts monthly and shall close its books at the end of each calendar year."

Effective January 1991, company obtained the services of a CPA to maintain its accounting records on an automated basis, and to produce financial statements and reports as required by governmental and regulatory agencies.

The CPA stated that he will maintain accounting records on a basis that complies with NARUC Accounting Instructions.

As of end of field work, no statements or other financial reporting data were observed.

**OPINION AND CONCLUSION:**

Compliance with NARUC subsequent to the test period could not be verified.

**RECOMMENDATION:**

Company should be ordered to comply with Rule 25-30.115 (1).

**COMPANY COMMENT:**

Company will respond at a later date.

**AUDIT EXCEPTION NO. 2**

**SUBJECT: RATE BASE ITEMS AT 12/31/89**

**STATEMENT OF FACT:**

NARUC, Class C, Accounting Instruction No. 3 states that "All utility plant shall be recorded at original cost."

Company does not have documents detailing original cost of plant prior to 1987. In addition, company does not maintain a general ledger or other accounting records whereby it records plant and other rate base items except in the FPSC Annual Report. Staff has therefore requested that an original cost study, covering the period from inception through the end of the test period, be prepared.

The latest FPSC Annual Report filed by the company, with the Commission, was for the year ended December 31, 1989.

The following balances, which represent an allocation of the purchase price of the utility assets from the prior owner, are recorded in the 1989 Annual Report.

<b>ACCOUNT TITLE</b> -----	<b>WATER</b> <b>AMOUNT</b> -----	<b>SEWER</b> <b>AMOUNT</b> -----
Plant in Service	\$ 2,163 (1)	\$ 2,000 (1)
Land	500 (1)	500 (1)
CIAC	-0-	-0-
Accumulated Depreciation (2)	( 136)	( 128)
Accumulated Amortization (2)	-0-	-0-

(1) Recorded at purchase price of \$5,000 (\$2,500-water; \$2,500-sewer) and addition of \$163 to water plant. (See Audit Exception No. 8)

**OPINION AND CONCLUSION:**

Audit of documents supplied by company and outside vendors for the period 1987 through 1989 and computations by audit staff determined the following amounts (and respective differences with company amounts) for the above listed rate base items at 12/31/89 (1).

\*\*\*\*\*WATER\*\*\*\*\*

ACCOUNT TITLE	AMOUNT (2)	DIFFERENCE
Plant in Service	\$ 1,036	(\$ 1,127)
Land	-0-	( 500)
CIAC	( 15,500)	( 15,500)
Accumulated Depreciation	( 37)	99 (2)
Accumulated Amortization	1,163	1,163 (2)

\*\*\*\*\*SEWER\*\*\*\*\*

ACCOUNT TITLE	AMOUNT (2)	DIFFERENCE
Plant in Service	\$ 1,855	(\$ 145)
Land	-0-	( 500)
CIAC	( 10,500)	( 10,500)
Accumulated Depreciation	( 81)	47 (2)
Accumulated Amortization	788	788 (2)

- (2) The dollars in the amount column above are only for additions to plant for the years 1987 through 1989. No retirements, if any, are included.
- (3) Computed depreciation and amortization using a composite rate of 2.5%. (See Audit Exception No. 8)

**RECOMMENDATION:**

Adjust rate base (for the period 1987 through 1989), by the amount shown above in the difference column.

In addition, Company should be ordered to maintain a general ledger and to record plant and other rate base items at that amount approved by the Commission pending the outcome of PSC Order establishing rate base for the currently docketed Staff Assisted Rate Case.

**COMPANY COMMENT:**

Company will respond at a later date.

**AUDIT EXCEPTION NO. 7**

**SUBJECT: DEFERRED EXPENSES**

**STATEMENT OF FACT:**

Company incurred the following expenses during the test period:

\$ 185.73 - towards the acquisition of an Operations permit for the wastewater plant .

\$3,066.98 - sand to be used in the filtration of the water system to reduce iron content in the water.

Company personnel stated that the sand in the filtration system needs to be replaced on the average of every three years.

Company personnel also stated that: (1) application has been made to DER for an operation permit, but one has not been received; (2) wastewater permits, are issued every three years; (3) total cost of permit cannot be determined because engineer cost, to be incurred, is not known at this time.

**OPINION AND CONCLUSION:**

Because the above stated items do not occur every year, but rather approximately every three years, the cost incurred during the test year should be allocated over a three year period.

Cost of sand - \$3,068.98, was reduced by an amount of \$272.68 (non-recurring cost) and the balance, \$2,794.30 was expensed over a three-year period.

Deferred portion of sand = \$1,862.87. Portion of sand to be expensed = \$931.43.

Deferred cost of permit application = \$123.82. Portion of permit cost to be expensed = \$61.91.

**RECOMMENDATION:**

Increase Operation and Maintenance expense by \$931.43 (water) and \$61.91 (sewer).

**COMPANY COMMENT:**

Company will respond at a later date.

**AUDIT EXCEPTION NO. 3**

**SUBJECT: ADDITIONS TO RATE BASE - 1990**

**STATEMENT OF FACT:**

NARUC, Class C, Accounting Instruction No. 2 states that "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. Each utility shall keep its accounts monthly and shall close its books at the end of each calendar year."

Company does not maintain a general ledger or other accounting records whereby it records additions to rate base items except in the FPSC Annual Report.

The latest FPSC Annual Report filed by the company, with the Commission, was the year ended December 31, 1989.

**OPINION AND CONCLUSION:**

Audit of documents supplied by company and outside vendors, and computations by audit staff determined that the following amounts were additions to rate base items during 1990.

<u>ACCOUNT TITLE</u>	<u>WATER AMOUNT</u>	<u>SEWER AMOUNT</u>
Plant in Service	\$ 44,770	\$ 4,966
Land	-0-	-0-
CIAC	( 39,500)	-0-
Accumulated Depreciation (1)	( 586)	( 108)
Accumulated Amortization (1)	881	263

(1) Computed using a composite rate of 2.5% (See Exception No. 8)

**RECOMMENDATION:**

Adjust rate base by the amount shown above.

In addition, company should be ordered to maintain a general ledger and to record additions to plant and other rate base items at the amount approved by the Commission pending the outcome of PSC Order establishing rate base for the Staff Assisted Rate Case.

**COMPANY COMMENT:**

Company will respond at a later date.

**AUDIT EXCEPTION NO. 4**

**SUBJECT OF FACT: MISCELLANEOUS ADJUSTMENTS**

**STATEMENT OF FACT:**

NARUC, Class C, Accounting Instruction 2.B states that "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".

USA Utilities, Inc. charged company for Power Purchased in the amount of \$6,066.44 (Water - \$2,929.01 and Sewer - \$3,137.43). Actual power bills for service received during the test period were \$3,037.80 (Water - \$1,273.45 and Sewer - \$1,764.35). The difference in amount billed by USA Utilities, Inc., and actual amount of power bills is \$3,028.64 (Water - \$1,655.56 and Sewer - \$1,373.08).

Also USA Utilities, Inc., charged company for Contractual Services-Accounting not incurred by docketed company but by an affiliate in the amount of \$1,373.38.

**OPINION AND CONCLUSION:**

Staff allocated the charge for Contractual Services-Accounting 50/50 - Water (\$686.69) and Sewer (\$686.69).

Company's failure to comply with Accounting Instruction 2.B. caused A/C 615 - Power Purchased (Water) to be overstated by \$1,655.56; A/C 715 - Power Purchased (Sewer) to be overstated by \$1,373.08, and A/C 630.6 Contractual Services - Accounting (Water) and A/C 730.6 - Contractual Services - Accounting (Sewer) are overstated by \$686.69, each.

**RECOMMENDATION:**

Decrease Operating and Maintenance Expenses - Water by \$2,342.25 (\$1655.56 + 686.69) and Sewer by \$2,059.77 (\$1,373.08 + 686.69).

**COMPANY COMMENT:**

Company will respond at a later date.

**AUDIT EXCEPTION NO. 5**

**SUBJECT: OUT OF PERIOD EXPENSES**

**STATEMENT OF FACTS:**

In a statement from USA Utilities, Inc., dated 1/1/90, company was billed for the following amounts: \$170.00 - A/C 630.1-Plant Operator(water); \$13.50 - A/C 630.2-Sample Analysis (water); \$430.00 - A/C 630.3-Repairs USA (water); and \$170.00 - A/C 730.1-Plant Operator(sewer); \$35.00 - A/C 730.2-Sample Analysis(sewer); \$60.00 A/C 730.3-Repairs USA (sewer).

These items are for invoices dated in the period prior to the test period.

NARUC, Class C, Accounting Instruction 2A, requires utilities to maintain books of accounts on a accrual basis.

**OPINION AND CONCLUSION:**

Failure to maintain accounts on an accrual basis resulted in Operation and Maintenance - Water being overstated by \$613.50 (\$170.00 + 13.50 + 430.00) and Operation and Maintenance - Sewer to be overstated by \$265 (\$170.00 + 35.00 + 60.00).

**RECOMMENDATION:**

Reduce Operating & Maintenance - Water by \$613.50 and Operating and Maintenance - Sewer by \$265.00.

**COMPANY COMMENT:**

Company will respond at a later date.

**AUDIT EXCEPTION NO. 6**

**SUBJECT: UNBILLED ITEMS**

**STATEMENT OF FACT:**

USA Utilities, Inc incurred and paid several expense during the test period on behalf of company. However, these items were not billed by USA Utilities during the test period and therefore, the company did not record these expense items.

NARUC, Class C, Accounting Instruction No. 2A, states "... Each utility shall keep its accounts monthly and shall close its books at the end of each calendar year...."

**OPINION AND CONCLUSION**

Failure by the USA Utilities to charge company for these expense items resulted in an understatement of the Accounts Payable Balance and the related operating and maintenance expense, of company, by \$22,024.64 (water - \$11,232.97 and sewer - \$10,791.67) as determined by audit staff.

A summary of the unbilled items is shown below.

**WATER:**

<b>A/C NO.</b> -----	<b>ACCOUNT TITLE</b> -----	<b>AMOUNT</b> -----
680.10	OFFICE EXPENSE - OTHER	25.20
630.10	CONTRACTUAL SERVICES - OFFICE - CLERICAL	624.00
630.11	CONTRACTUAL SERVICES - METER READING	450.00
680.20	OFFICE EXPENSE - RENT	333.90
680.30	OFFICE EXPENSE - ELECTRIC	101.65
680.40	OFFICE EXPENSE - TELEPHONE	264.17
630.90	CONTRACTUAL SERVICES - MANAGEMENT FEE	8,880.00
655.00	INSURANCE EXPENSE - PROPERTY	6.50
670.00	BAD DEBT EXPENSE	547.55
	<b>TOTAL UNBILLED ITEMS</b>	<b>\$11,232.97</b> =====

**SEWER:**

<b>A/C NO.</b> -----	<b>ACCOUNT TITLE</b> -----	<b>AMOUNT</b> -----
730.80	CONTRACTUAL SERVICES - ENGINEERING	140.25
711.10	SLUDGE REMOVAL EXPENSE	100.00
730.10	CONTRACTUAL SERVICES - OFFICE - CLERICAL	624.00
780.20	OFFICE EXPENSE - RENT	333.90
780.30	OFFICE EXPENSE - ELECTRIC	101.64
780.40	OFFICE EXPENSE - TELEPHONE	264.17
730.90	CONTRACTUAL SERVICES - MANAGEMENT FEE	8,880.00
755.00	INSURANCE EXPENSE - PROPERTY	6.50
770.00	BAD DEBT EXPENSE	341.21
		-----
	<b>TOTAL UNBILLED ITEMS</b>	<b>\$10,791.67</b> =====

**RECOMMENDATION:**

Increase Operating & Maintenance expenses by \$11,232.97  
for water and \$10,791.67 for sewer.

**COMPANY COMMENTS:**

Company will respond at a later date.

**AUDIT EXCEPTION NO. 7**

**SUBJECT: DEFERRED EXPENSES**

**STATEMENT OF FACT:**

Company incurred the following expenses during the test period:

\$ 185.73 - towards the acquisition of an Operations permit for the wastewater plant .

\$3,066.98 - sand to be used in the filtration of the water system to reduce iron content in the water.

Company personnel stated that the sand in the filtration system needs to be replaced on the average of every three years.

Company personnel also stated that: (1) application has been made to DER for an operation permit, but one has not been received; (2) wastewater permits, are issued every three years; (3) total cost of permit cannot be determined because engineer cost, to be incurred, is not known at this time.

**OPINION AND CONCLUSION:**

Because the above stated items do not occur every year, but rather approximately every three years, the cost incurred during the test year should be allocated over a three year period.

Cost of sand - \$3,066.98, was reduced by an amount of \$272.68 (non-recurring cost) and the balance, \$2,794.30 was expensed over a three-year period.

Deferred portion of sand = \$1,862.87. Portion of sand to be expensed = \$931.43.

Deferred cost of permit application = \$123.82. Portion of permit cost to be expensed = \$61.91.

**RECOMMENDATION:**

Increase Operation and Maintenance expense by \$931.43 (water) and \$61.91 (sewer).

**COMPANY COMMENT:**

Company will respond at a later date.

**AUDIT EXCEPTION NO. 8**

**SUBJECT: COMPUTATION OF DEPRECIATION AND AMORTIZATION EXPENSE**

**STATEMENT OF FACT:**

Company did not record Depreciation Expense on Plant In Service or Amortization Expense on Contributions in Aid of Construction (CIAC) during the test period.

NARUC, Class C, Accounting Instruction No. 2.B. states that "... books of accounts.....shall be kept....on an accrual basis....". In addition, Accounting Instruction No. 4.A. states that "...depreciation charges shall be computed .... according to which method has been approved by the Commission..."

Rule 25-30.140, F.A.C. states that "The new rules and guidelines depreciation rates will not be implemented for any company until that company participates in a proceeding before this Commission either for (1) revised water and/or sewer rates and charges, or (2) a specific request for changes in depreciation rates...."

Company has not previously come before the Commission for revised rates nor has its requested a change in depreciation rates.

**OPINION AND CONCLUSION:**

Historically, the Commission has allowed a composite rate of 2.5% (through the end of the test period), for the purposes of computing Accumulated Depreciation and Accumulated Amortization prior to the implementation of Rule 25-30.140. The computation of depreciation and amortization expense, for the purpose of test year NOI, has been at the rates per Rule 25-30.140.

Staff computed Depreciation Expense of \$862.85 for water and \$226.46 for sewer and CIAC Amortization Expense of \$1,507.75 for water and \$304.50 for sewer for the test period using rates per Rule 25-30.140 F.A.C.

An adjustment for depreciation expense should be made for the test period in order to conform to the NARUC requirement of same.

**RECOMMENDATION:**

Company should be ordered to comply with NARUC, Class C, Accounting Instruction 2.B and 4.A.

**COMPANY COMMENT:**

Company will respond at a later date.

**AUDIT EXCEPTION NO. 9**

**SUBJECT: TAXES OTHER THAN INCOME.**

**STATEMENT OF FACT:**

Company recorded Regulatory Assessment Fees of \$59.73 for water and \$48.84 for sewer relating to 1989 revenues during the test year.

The Company's 1990 Real Estate Property Tax due is \$364.04 for water and \$619.39 for sewer. This amount has not been recorded by the company.

NARUC, Class C, Sewer Accounting Instruction 2.A requires utilities to maintain books of accounts on an accrual basis.

**OPINION AND CONCLUSION:**

Pursuant to Accounting Instruction 2.A, two adjustments are needed.

- (1) Regulatory Assessment Fees of \$59.73 - water and \$48.84 - sewer, relating to 1989 revenues, must be removed. The auditor has computed the Regulatory Assessment Fees to be \$174.32 - water and \$150.94 - sewer for 1990 Revenues.
- (2) 1990 Real Estate Property Taxes of \$364.04 - water and \$619.39 - sewer must be recorded.

The net adjustment to Taxes Other Than Income for the above items is \$478.63 (\$364.04 - \$59.73 + \$174.32) for Water and \$721.49 (\$619.39 - \$48.84 + \$150.94) for Sewer.

**RECOMMENDATION:**

Increase the balance of Taxes Other Than Income for water by \$478.63 and sewer by \$721.49.

**COMPANY COMMENT:**

Company will respond at a later date.

**AUDIT DISCLOSURE NO. 1**

**SUBJECT: WATER/SEWER SYSTEM OPERATION AGREEMENT**

**STATEMENT OF FACT:**

During the test period, USA Utilities, Inc., billed utility \$4,522.00 (water - \$2,261.00 and sewer - \$2,261.00) for operation of the water and sewer plant and \$162.00 for all testing and analysis of water samples.

In January, 1991, utility signed a new agreement with USA Utilities, Inc. which provided for basic operator services at a monthly rate of \$500.00 (water - \$250.00 and sewer - \$250.00).

The new agreement provides for: (1) basic plant operation; (2) testing of water samples and (3) preparation of monthly operating reports to regulatory agencies.

**OPINION AND CONCLUSION:**

Included in the charge for plant operator was an out of period amount of \$340.00 (\$170.00-water and \$170.00 -sewer). (See Exception No. 5).

Also, because a new rate for services that were received in this test period is currently in effect, the new rate should be annualized.

Annualization of the current agreement rate is \$3,000.00 (12 X \$250) for water and sewer plant operation. This annualized amount is \$909.00 greater for the water plant operations and \$909.00 greater for the sewer plant operation than the test period amount.

In addition, the new agreement rate included water sampling analysis, and therefore the test period expense for water sampling analysis of \$162.00 (\$13.50 x 12) has been removed by staff.

The results of the staff adjustments was to increase the test period expense for water plant operation by \$747 (\$909-162) and sewer plant operation by \$909.00.

**COMPANY COMMENT:**

Company will respond at a later date.

**AUDIT DISCLOSURE NO. 2**

**SUBJECT: COMPANY PROPOSED PRO-FORMA EXPENSE**

**STATEMENT OF FACT:**

The company provided a cost estimate for accounting services to be received in the periods subsequent to the test period. The amount of the estimate is \$4300.00

The proposed amount for accounting services would be an increase of \$3,336 to the amount included in test period expense.

**OPINION AND CONCLUSION:**

The company proposed adjustment included above should be given consideration in the rate making process.

**COMPANY COMMENT:**

Company will respond at a later date.

**AUDIT DISCLOSURE NO. 3**

**SUBJECT: REVENUES NOT CHARGED AT TARIFF RATES**

**STATEMENT OF FACT:**

FPSC ORDER NO. 21479 issued 6/29/89 granted Homosassa Utilities, Inc. (Sumter) a 1989 price index rate adjustment. The new water customer charge was increase from \$1.50 to \$1.55 per customer and the new sewer monthly charge was increased from \$1.50 to \$1.54 per customer for an increase of \$.09, per customer, per month.

An analysis of the utilities' billing register showed that the company was charging a per customer charge of \$3.00 which represents the price prior to the increase.

**OPINION AND CONCLUSION:**

During the staff billing analysis, it was determined that the total yearly customer billings was 663. The total uncollected amount was \$59.67 (663x.09) or for water \$33.15 (663x.05) and sewer \$26.52 (663x.04).

**COMPANY COMMENT:**

Company will respond at a later date.

**AUDIT DISCLOSURE NO. 4**

**SUBJECT: ALLOCATIONS FROM AFFILIATED COMPANY**

**STATEMENT OF FACTS:**

In response to Document/Record Request No. 2, the company stated that the following costs were allocated to it by USA Utilities, Inc. (an affiliate that operates and maintains the company's, and also handles customer billing and receipts):

<u>Allocated Item</u>	<u>Water</u>	<u>Sewer</u>
Management Fees	\$8,880.00	\$8,880.00
Office Expense - Rent	333.90	333.90
Office Expense - Electric	101.65	101.64
Office Expense - Telephone	264.17	264.17
Office Expense - Clerical	624.00	624.00
Meter Reading	450.00	
Total Allocated Costs	<u>\$10,653.72</u>	<u>\$10,203.71</u>

Management Fees are the result of duties performed on behalf of the company by the President and Manager of USA Utilities and represent 40% of 8 hours a month at \$75.00/hr President, and 40% of 16 hours per week at \$62.50/hr - Manager.

USA Utilities allocates 21% of the office expense (Rent, Electric, and Telephone) to the company. Per the Manager of USA Utilities, Inc., this percentage was judgmentally determined.

USA Utilities, Inc. allocates office clerical expenses based on approximate hours worked. The hourly rate is \$26.00, which includes office supplies and expense.

**COMPANY COMMENT:**

Company will respond at a later date.

**AUDIT DISCLOSURE NO. 5**

**SUBJECT: LONG-TERM DEBT**

**STATEMENT OF FACT:**

According to personnel of USA Utilities, Inc. Utility did not have any debt outstanding on its books during the test period.

In January, 1991, USA Utilities, Inc. executed two demand notes carrying a 12% interest rate and payable by Homosassa Utilities, Inc. (Sumter).

The notes were for: (1) \$19,140 - Management Fees, and (2) \$32,445.92 - Contractual Operations.

The above expenses after adjustments are included as staff adjustments in the O & M Expenses.

**COMPANY COMMENT:**

Company will respond at a later date.

**AUDIT DISCLOSURE NO. 6**

**SUBJECT: MARK-UP FROM AFFILIATE COMPANY**

**STATEMENT OF FACT:**

During the test period, USA Utilities began incorporating within billing amounts a Cost of Doing Business Mark-Up.

Per the new 1991 Water and Sewer Operation Agreement, "Materials and parts shall be marked up 30% to cover the cost of ordering, pickup and delivery, overhead and profit".

**OPINION AND CONCLUSION:**

During the analysis of Accounts Payable to USA Utilities, Inc., by utility, it was noted that the utility was being assessed a 10% mark-up on sludge removal, 15% on engineering services and generally 25% to 30% was charged to capital items, accounting services, parts and materials.

Also, USA Utilities, Inc. did not take into account vendor discounts and pass through the amount saved to Homosassa Utilities, Inc. (Sumter).

**COMPANY COMMENT:**

Company will respond at a later date.

**AUDIT DISCLOSURE NO. 7**

**SUBJECT: PUMP RENTAL**

**STATEMENT OF FACT:**

Homosassa Utilities, Inc., rented a pump from USA Utilities, Inc., for the purpose of providing service to the lift station. Invoice date 3/30/90 is for 13 weeks (1/1/90 thru 3/31/90) \$10 per week at a billing cost, including administration and mark-ups, of \$222.50.

On invoice dated 7/31/90, utility paid \$91.40 to USA Utilities, Inc., for the ownership of the pump.

**OPINION AND CONCLUSIONS:**

The cost of the pump was added to Plant Account 370 to be capitalize.

**COMPANY COMMENT:**

Company will respond at a later date.

**AUDIT DISCLOSURE NO. 8**

**SUBJECT: OASIS CAMPGROUND RV PARK**

**STATEMENT OF FACT:**

USA Utilities, Inc., has been requested to provide water service for the Oasis Campground RV Park, located in the service area of Homosassa Utilities, Inc. (Sumter).

**OPINION AND CONCLUSIONS:**

To provide the service USA Utilities, Inc., will need to extend the line (pipe size to meet AWWA Standards) approximately 100 feet and install a master meter. At this time the size of the meter can not be determined.

Utility has submitted a proposed tariff sheet for general service customers. The RV Park has approximately 28 seasonal customers (RV Units).

Proposed date of extension will be approximately two weeks following FPSC approval of rate and payment from Oasis Campground RV Park of the connection fee.

**COMPANY COMMENT:**

Company will respond at a later date.

**HOMOSASSA UTILITIES, INC. (SUMTER)  
YEAR-END RATE BASE - WATER  
AT DECEMBER 31, 1990**

ITEM DESCRIPTION	BALANCE PER CO. 12/31/89 (A)	AUDIT EXCEPTIONS NO.	AMOUNT	STAFF ADJUSTED BALANCE 12/31/90 (B)
PLANT IN SERVICE	2,163.00	1	(1,127.00)	
		2	44,770.00	45,806.00
LAND	500.00	1	(500.00)	0.00
CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)		1	(15,500.00)	
		2	(39,500.00)	(55,000.00)
ACCUMULATED DEPRECIATION	(138.00)	1	99.00	
		2	(588.00)	(622.00)
ACCUMULATED AMORTIZATION (CIAC)		1	1,163.00	
		2	881.00	2,044.00
WORKING CAPITAL ALLOWANCE (1/8 O&M EXPENSES)	0.00	(C)	2,921.73	2,921.73
			(7,378.27)	
	<u>2,527.00</u>			<u>(4,850.27)</u>

NOTES:

(A) Based upon 1989 Annual Report Balances.

(B) Company does not maintain accounting books and records except for the FPSC Annual Report prepared at calendar YE. Therefore, Staff adjustments include all of the test period (12 months ended 12/31/90) activity, also the plant and land balances per staff does not include balances from inception thru 12/31/86. This period will be covered by original cost study to be prepared by Water and Sewer Analyst.

(C) Working Capital Allowance equals 1/8 of O & M Expense.

**HOMOSASSA UTILITIES, INC. (SUMTER)  
YEAR-END RATE BASE - SEWER  
AT DECEMBER 31, 1990**

ITEM DESCRIPTION	BALANCE PER CO. 12/31/89 (A)	AUDIT EXCEPTIONS NO.	AMOUNT	STAFF ADJUSTED BALANCE 12/31/90 (B)
PLANT IN SERVICE	2,000.00	1	(145.00)	
		2	4,966.00	6,821.00
LAND	500.00	1	(500.00)	0.00
CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)		2	(10,500.00)	(10,500.00)
ACCUMULATED DEPRECIATION	(128.00)	1	47.00	
		2	(108.00)	(189.00)
ACCUMULATED AMORTIZATION (CIAC)		1	788.00	
		2	263.00	1,050.00
WORKING CAPITAL ALLOWANCE (1/8 O&M EXPENSES)		(C)	2,585.00	2,585.00
		-----	-----	
		0.00	(2,804.01)	
	-----	-----	-----	-----
	2,372.00			(233.01)
	-----			-----

NOTES:

(A) Based upon 1989 Annual Report Balances.

(B) Company does not maintain accounting books and records except for the FPSC Annual Report prepared at calendar YE. Therefore, Staff adjustments include all of the test period (12 months ended 12/31/90) activity, also the plant and land balances per staff does not include balances from inception thru 12/31/86. This period will be covered by original cost study to be prepared by Water and Sewer Analyst.

(C) Working Capital Allowance equals 1/8 of O & M Expense.

**HOMOSASSA UTILITIES, INC (SUMTER)  
NET OPERATING INCOME (WATER)  
12 MONTHS ENDED 12/31/90**

ITEM DESCRIPTION	BALANCE PER COMPANY 12/31/90	AUDIT EXCEPTIONS NO.	AMOUNT	AUDIT ADJUSTED BALANCE 12/31/90
REVENUES	6,972.90			6,972.90
OPERATION AND MAINTENANCE EXPENSES	14,165.18	4	(2,342.25)	23,373.83
		5	(613.50)	
		6	11,232.97	
		7	931.43	
DEPRECIATION EXPENSE	0.00	8	862.85	862.85
AMORTIZATION EXPENSE	0.00	8	(1,507.75)	(1,507.75)
TAXES OTHER THAN INCOME	59.73	9	478.63	538.36
TOTAL EXPENSES	14,224.91		9,042.38	23,267.29
NET INCOME (LOSS) BEFORE INCOME TAXES	(7,252.01)			(16,294.39)

**HOMOSASSA UTILITIES, INC (SUMTER)  
NET OPERATING INCOME (SEWER)  
12 MONTHS ENDED 12/31/90**

ITEM DESCRIPTION	BALANCE PER COMPANY 12/31/90	AUDIT EXCEPTIONS NO.	AMOUNT	AUDIT ADJUSTED BALANCE 12/31/90
REVENUES	6,037.74			6,037.74
OPERATION AND MAINTENANCE EXPENSES	12,156.15	4	(2,064.77)	20,679.96
		5	(265.00)	
		6	10,791.67	
		7	61.91	
DEPRECIATION EXPENSE	0.00	8	226.46	226.46
AMORTIZATION EXPENSE	0.00	8	(304.50)	(304.50)
TAXES OTHER THAN INCOME	48.84	9	721.49	770.33
TOTAL EXPENSES	12,204.79		9,167.26	21,372.25
NET INCOME (LOSS) BEFORE INCOME TAXES	(6,167.25)			(15,334.51)

**HOMOSASSA UTILITIES, INC  
COST OF CAPITAL  
AT DECEMBER 31, 1990**

**PER AUDIT, IT WAS DETERMINED THAT COMPANY HAS NO EQUITY OR LONG-TERM DEBT.**

**IT WAS ALSO DETERMINED THAT RATE BASE FOR THE PERIOD 1987 THROUGH 1990 IS ZERO. AN ORIGINAL COST STUDY WAS REQUESTED TO DETERMINE ORIGINAL COST OF PLANT FROM INCEPTION TO END OF TEST PERIOD. HOWEVER, THE RESULTS OF THAT STUDY WERE NOT AVAILABLE PRIOR TO AUDIT DUE DATE.**

**AS A RESULT, COST OF CAPITAL CAN NOT BE DETERMINED AT THIS TIME.**

Commissioners:  
THOMAS M. BEARD, CHAIRMAN  
GERALD L. GUNTER  
MICHAEL WILSON  
BETTY EASLEY  
J. TERRY DEASON

State of Florida



STEVE TRIBBLE, Director  
Division of Records and Reporting  
(904) 488-8371

Public Service Commission

March 25, 1991

Homosassa Utilities, Inc.  
Attn: John H. Hotaling, Manager  
6608 Walton Way  
Tampa, FL 33610-5517

Dear Mr. Hotaling:

Docket No. 900966-WS -- Homosassa Utilities, Inc. (The Woods)  
Staff-assisted Rate Case Audit

The enclosed report is forwarded for your review.

The audit report and 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,

Steve Tribble

ST/FD/sp  
Enclosure

cc: Norman Mears w/enclosure