

M E M O R A N D U M

May 22, 1996

TO: DIVISION OF RECORDS AND REPORTING

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

RE: DOCKET NO. 960145-WU -- HOLMES CREEK WATER UTILITIES  
STAFF-ASSISTED RATE CASE AUDIT REPORT  
AUDIT CONTROL NO. 96-051-1-1

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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:

Holmes Creek Water Utilities  
Richard Peterson, Sr.  
4930 Sugardoll Road  
Vernon, FL 32462

DNV/sp

Attachment

c:: 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 (Kemp)  
Tallahassee District Office (Grayson)

Research and Regulatory Review (Harvey)  
Office of Public Counsel

DOCUMENT NUMBER-DATE  
05674 MAY 23 96  
FPSC-RECORDS/REPORTING

**FLORIDA PUBLIC SERVICE COMMISSION**

**AUDIT REPORT**

**12 MONTHS ENDED DECEMBER 31, 1995**

**FIELD WORK COMPLETED**

**MAY 10, 1996**

**HOMES CREEK WATER UTILITIES**

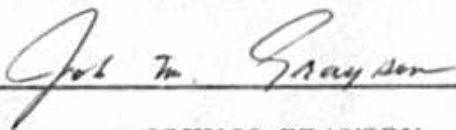
**VERNON, FLORIDA**

**WASHINGTON COUNTY**

**STAFF ASSISTED RATE CASE**

**DOCKETED NO. 960145-WU**

**AUDIT CONTROL NUMBER 96-051-1-1**



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**JOHN M. GRAYSON  
AUDIT MANAGER**

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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 months ended December 31, 1995, for Holmes Creek Water Utilities.

**SCOPE LIMITATION:** There are no confidential documents associated with the audit report.

**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 statements for public use.

**OPINION:** Subject to the Audit Disclosures contained in this report, the appended staff prepared schedules of Rate Base, Net Operating Income, and Capital Structure represents utility 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.

## II. AUDIT SCOPE

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

**RATE BASE:** Request an original cost study to determine plant in service and accumulated depreciation for the period ending December 31, 1995. Computed the working capital allowance using the 1995 staff adjusted operation and maintenance expense and the 1/8 O&M method.

**NET OPERATING INCOME:** Scheduled all deposits made to the utility checking account during 1995. Scheduled all checks written by the utility during 1995 from the utility check register. Traced checks from the utility check register to the utility's monthly bank statements. Reviewed invoices for all charges to Purchased Power and Chemicals, and Contractual Services expense.

**CAPITAL STRUCTURE:** Read the terms of the \$1,400 Small Business Administration Loan agreement.

**OTHER:** Reviewed the 1995 Federal Income Tax Return. Reviewed the 1994 Regulatory Assessment Fee Return and Property Tax bills and traced amount paid to the check register and bank statement.

### III. AUDIT EXCEPTIONS

#### Audit Exceptions No. 1

**Subject:** NARUC SYSTEM OF ACCOUNTS

**Statement of Fact:** NARUC, Class C, Accounting Instructions, 2(a) - General - Records, states, "The books of accounts of all water utilities shall be kept by the double entry method, on an accrual basis."

The books of Holmes Creek Water Utilities are kept on an cash basis.

**Audit Exception No. 2**

**Subject:** ORIGINAL COST STUDY

**Statement of Fact:** NARUC, Class C, Accounting Instructions, 3 - Utility Plant, states, "All utility plant shall be recorded at original cost."

The utility has no records to document the original cost of Plant in Service. An original cost study was requested from the Water and Wastewater Engineer assigned to this case.

#### IV. AUDIT DISCLOSURES

##### Audit Disclosure No. 1

**Subject:** LAND

**Statement of Fact:** The utility has land recorded on its books at \$1,000 for two lots on which wells are located. Documentation to support the original cost of these lots is not maintained by the utility owner. The audit staff attempted to determine the original cost of the two lots by researching the warranty deeds for the lots back to 1969 when the utility started operating. It was determined that the two lots were a part of the Holmes River Campsite which was purchased in 1968 by Frank E. Pericola, Jr. d/b/a International Timber Company, Inc. from Bessie and Rudy Polise. The actual cost of this sale was not determined as the microfiche copy of the warranty deed is distorted and the amount of documentary stamps could not be determined. In addition, when the Holmes River Campsite was broken up into lots, no record of the lots was recorded with the Washington County Clerks Office. Therefore, the lots are now recorded on an "unofficial plat" of Holmes River Campsite.

**Opinion:** The audit staff believes that the \$1,000 recorded as land on the utilities books is reasonable for the two lots that have utility wells on them. Further, the time and expense necessary to determine the original cost of the land would probably outweigh any adjustment that may result from determining the original cost.



**Subject:** DEBT PAYMENTS

**Statement of Fact:** In October 1994, the utility owner borrowed \$1,400 from the Small Business Administration. The term of the loan was stated as 3 years at the rate of 4.00% per year. The utility did not record this loan as Long Term Debt in its books. The outstanding balance of this loan at December 1995 was \$940. In addition, \$517 paid toward this loan during 1995 was charged to Operation and Maintenance Expense.

**Opinion:** The utility should record \$940 as Long Term Debt at December 31, 1995. Operation and Maintenance Expense should be reduced by the \$517 debt service payments charged to O & M Expense during 1995.

**Audit Disclosure No. 3**

**Subject:** TAXES OTHER

**Statement of Fact:** NARUC, Water Operation and Maintenance Expense Accounts. Account 675 - Miscellaneous Expenses, states, " This account shall include all expense not includable in the other operating expense accounts." During 1995, the utility charged \$57 to account 675 for the payment of property taxes.

**Opinion:** The utility should reduce O&M Expense by \$57 for the property tax expense charged to account 675. The proper account for this expense is account 408 - Taxes Other Than Income and the property tax payment is already recorded in that account.

**Audit Disclosure No. 4**

**Subject:** OPERATING REVENUES

**Statement of Fact:** The utility reports revenues on a cash basis as reported in Audit Exception No. 1. The company reported revenues of \$6,528 in its 1995 Annual Report. The deposits to the utility checking account total \$7,133. The utility owner, Mr. Peterson, asserts that all deposits to this account are from revenues received from utility customers during 1995.

**Opinion:** Revenues should be increased by \$605 to record all deposits made to the utility checking account during 1995.

HOLMES CREEK WATER UTILITIES  
 STAFF ASSISTED RATE CASE  
 RATE BASE  
 TEST YEAR ENDED 12/31/95

DESCRIPTION	1995 ANNUAL REPORT	AUDIT DISCLOSURE	REF	PER AUDIT
UTILITY PLANT IN SERVICE	6,132	OCS	Ex-2	0
ACCUMULATED DEPRECIATION	(4,320)	OCS	Ex-2	0
LAND	1,000	1,000		1,000
WORKING CAPITAL	0	841	xx	841
RATE BASE	<u>2,812</u>	<u>1,841</u>		<u>1,841</u>

xx - WORKING CAPITAL NOT REPORTED ON ANNUAL REPORT

OCS - ORIGINAL COST STUDY WILL DETERMINE AMOUNT

HOLMES CREEK WATER UTILITIES  
 STAFF ASSISTED RATE CASE  
 NET OPERATING INCOME  
 TEST YEAR ENDED 12/31/95

DESCRIPTION	1995 ANNUAL REPORT	AUDIT DISCLOSURE	REF	PER AUDIT
OPERATING REVENUES	6,528	605	D-6	7,133
OPERATING EXPENSES:				
O & M EXPENSE	7,357	(631)	D-4 & 5	6,726
DEPRECIATION EXPENSE	296	OCS	Ex-2	
TAXES - OTHER	389			389
TOTAL OPERATING EXPENSES	<u>8,042</u>	<u>(631)</u>		<u>7,115</u>
NET OPERATING INCOME (LOSS)	<u>(1,514)</u>	<u>(26)</u>		<u>18</u>

OCS - ORIGINAL COST STUDY WILL DETERMINE AMOUNT

HOLMES CREEK WATER UTILITIES  
 STAFF ASSISTED RATE CASE  
 CAPITAL STRUCTURE  
 TEST YEAR ENDED 12/31/95

DESCRIPTION	1995 ANNUAL REPORT	AUDIT DISCLOSURE	REF	PER AUDIT	COST RATE
LONG TERM DEBT		940	D-4	940	4.00%
PROPRIETARY CAPITAL		XX			
TOTAL	0	940		940	

XX - TO BE DETERMINED IN RECONCILIATION OF RATE BASE TO CAPITAL STRUCTURE

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

May 24, 1996

Richard Peterson, Sr.  
Holmes Creek Water Utilities  
4930 Sugardoll Road  
Vernon, Florida 32462

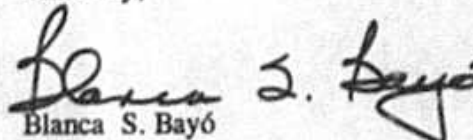
RE: Docket No. 960145-WU -- Holmes Creek Water Utilities  
Staff-assisted Rate Case Audit Report  
Audit Control #96-051-1-1

Dear Mr. Peterson:

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. Bayo

BSB/mas  
Enclosure  
cc: Public Counsel