

M E M O R A N D U M

August 22, 1996

TO: DIVISION OF RECORDS AND REPORTING

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

RE: DOCKET NO. ~~960643-WP~~^{WS} - SUMTER WATER COMPANY, INC.
TRANSFER AUDIT REPORT - 12 MONTHS ENDED DECEMBER 31, 1995
AUDIT CONTROL NO. 95-159-2-1

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:

Sumter Water Company, Inc.
John H. Hotaling
P. O. Box 26572
Tampa, FL 33610-6572

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 (Coker)
Tampa District Office (Bouckaert)

Research and Regulatory Review (Harvey)
Office of Public Counsel

DOCUMENT NUMBER-DATE

08984 AUG 23 96

FPSC-RECORDS/REPORTING

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

12 MONTHS ENDED DECEMBER 31, 1995

FIELD WORK COMPLETED

JULY 23, 1995

SUMTER WATER COMPANY, INC.

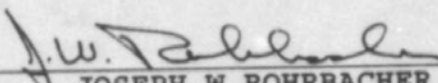
BUSHNELL, FLORIDA

SUMTER COUNTY

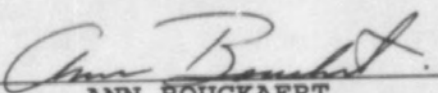
RATE BASE AT TIME OF TRANSFER

DOCKET NO. 960643-WU

AUDIT CONTROL NUMBER 95-159-2-1



JOSEPH W. ROHRBACHER
AUDIT MANAGER



ANN BOUCKAERT
PUBLIC UTILITIES SUPERVISOR

DOCUMENT NUMBER-DATE

08984 AUG 23 8

FPSC-RECORDS/REPORTING

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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 Water and Wastewater Rate Base for the twelve month period ending December 31, 1995 for Sumter Water Company, Inc. petition for transfer of Certificates 507-W and 441-S, FPSC Docket 960643-WU.

SCOPE LIMITATION: There are no confidential workpapers in this audit.

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 audit work would have to be performed to satisfy generally accepted audit standards and produce financial statements for public use.

OPINION: The schedules of Rate Base represent Sumter Water Company, Inc. books and records, which were not 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:

- (1) The Utility has not booked Commission adjustments established by prior Order No. PSC-92-1113-FOF-WS.
- (2) The Utility was not collecting customer deposits as authorized by the latest tariff.
- (3) By failing to book previously authorized Commission adjustments the Utility was understating Depreciation and Amortization of CIAC.
- (4) The Utility expensed items which should have been capitalized.

II. AUDIT SCOPE

RATE BASE: Reconciled beginning rate base to prior Order No. PSC-92-1113-FOF-WS establishing Rate Base as of January 31, 1992. Scheduled and tested 100% of plant and CIAC additions for the period 02/1/92 through 12/31/95. Computed and scheduled accumulated depreciation (plant) and accumulated amortization (CIAC) based upon staff adjusted balances for plant and CIAC using rates that were approved during prior rate proceedings for same period. Made appropriate adjustments to same.

OTHER: Determined whether any assets on the seller's books are not being transferred. Verified land ownership at time of transfer. Verified the existing rates, miscellaneous service charges, service availability charges, and customer deposits charged by the utility.

AUDIT EXCEPTION NO. 1

SUBJECT: ADJUSTMENTS FROM PRIOR FPSC ORDER

STATEMENT OF FACT:

FPSC Order No. PSC-92-1113-FOF-WS established rate base for the Utility (formally Homosassa Utilities, Inc.), as of January 31, 1992, of \$8,697 for the water system and \$29,256 for the wastewater system.

Included in these amounts were adjustments from a prior order and additions and recalculations from the audit.

As of the date of transfer, December 31, 1995, these amounts were not reflected on the books and records of the utility.

AUDITOR OPINION:

The utility is in violation of Order No. PSC-92-1113-FOF-WS. The following adjustments are needed to bring the books into compliance:

	<u>WATER</u>	<u>SEWER</u>
Utility Plant in Service	\$ 69,963	\$ 85,747
Land	3,000	7,000
Accumulated Depreciation	(44,856)	(44,108)
Contributions In Aid Construction	(48,741)	(59,642)
CIAC Amortization	<u>22,548</u>	<u>36,994</u>
TOTAL	<u>\$ 1,914</u>	<u>\$ 25,991</u>

RECOMMENDATION:

Adjust rate base to reflect Commission approved balances as of 01-31-92.

AUDIT DISCLOSURE NO. 1

SUBJECT: CUSTOMER DEPOSITS

STATEMENT OF FACT:

The FPSC established the Utility's approved tariff for customer deposits at \$40.00 for both water and wastewater, effective October 8, 1993.

Under Rule 25-30-.311 F.A.C. the utility may require an additional deposit in order to secure payment of current bills. The total amount of the required deposit shall not exceed an amount equal to the average actual charge for two monthly billing periods for the prior twelve month period. In the event the customer has had service less than 12 months, the utility shall base its new or additional deposit upon the average actual monthly billing available.

During the last rate case, Order No. 25139, a customer deposit amount of \$12.50 for both water and wastewater, effective October 28, 1991, was established.

The Utility has been collecting \$25.00 (\$12.50 for water and wastewater) from its new customers and requiring additional deposits on the slow paying customers.

AUDITOR OPINION:

The Utility should have been collecting a \$40.00 deposit for new customers for both water and wastewater effective October 8, 1993.

The Utility is paying the required interest on the deposits.

AUDIT DISCLOSURE NO. 3

SUBJECT: CONTRIBUTIONS IN AID CONSTRUCTION (CIAC)

STATEMENT OF FACT:

FPSC Order No. PSC-92-1113-FOF-WS established rate base for the utility (formally Homosassa Utilities, Inc.), as of January 31, 1992. Included in these amounts were adjustments for CIAC and Accumulated Amortization of CIAC from a prior order and additions and recalculations from the audit.

As of December 31, 1995 these adjustments were not reflected on the books and records of the Utility. Consequently, the utility did not reflect the correct yearly amortization from 1992 - 1995.

AUDITOR OPINION:

The auditor recalculated CIAC amortization reflecting the adjustments from the above order, using the rate approved in FPSC Order No. 25139, issued 09-30-91.

Accumulated Amortization was understated by \$3,488 for the water system and \$5,825 for the wastewater system.

In addition, the utility collected a meter installation charge of \$100 for a new customer which was not approved in the tariff.

AUDIT DISCLOSURE NO. 2

SUBJECT: PLANT IN SERVICE/ACCUMULATED DEPRECIATION

STATEMENT OF FACT:

FPSC Order No. PSC-92-1113-FOF-WS established rate base for the utility (formally Homosassa Utilities, Inc.), as of January 31, 1992. Included in these amounts were adjustments for Plant In Service and Accumulated Depreciation from a prior order and additions and recalculations from the audit.

As of December 31, 1995 these adjustments were not reflected on the books and records of the Utility. Consequently, the utility did not reflect the correct yearly depreciation from 1992 - 1995.

In addition, after discussions with the utility owner, items previously expensed were deemed to be capital assets.

AUDITOR OPINION:

The reclassification for the assets totaled \$1,613 for the water system and \$900 for the wastewater system.

The auditor recalculated depreciation reflecting the adjustments from the above order, using the rates approved in Rule 25-30.140, F.A.C.

Accumulated Depreciation was understated by \$10,842 for the water system and \$15,056 for the wastewater system.

COMPANY : SUMTER WATER COMPANY, INC.
 SCHEDULE: SUMMARY RATE BASE - WATER
 PERIOD : 12 MOS ENDED 12-31-95

DESCRIPTION	BALANCE PER BOOK @12/31/95	AUDIT ADJUSTMENTS	BALANCE PER AUDIT @12/31/95	AVERAGE BALANCE @12/31/95
UTILITY PLANT IN SERVICE	47,041	69,963 EX1 1,613 DS2	118,617	118,417
LAND	500	3,000 EX1	3,500	3,500
ACCUMULATED DEPRECIATION	(7,122)	(44,856)EX1 (10,842)DS2	(62,820)	(60,774)
CONTRIBUTION IN AID CONSTRUCTION	(41,150)	(48,741)EX1 50 DS3	(89,841)	(89,591)
AMORTIZATION - CIAC	7,091	22,548 EX1 3,488 DS3	33,127	32,007
PLANT HELD FUTURE USE	0		0	
WORKING CAPITAL	0		0	
ACQUISITION ADJUSTMENT	0		0	
AMORTIZATION - ACQUISITION ADJ	0		0	
	=====	=====	=====	=====
	6,360	(3,777)	2,583	3,559
	=====	=====	=====	=====

NOTE: PER AUDIT SERVICE REQUEST, WORKING CAPITAL ALLOWANCE NOT REQUIRED.

COMPANY : SUMTER WATER COMPANY, INC.
 SCHEDULE: SUMMARY RATE BASE - SEWER
 PERIOD : 12 MOS ENDED 12-31-95

DESCRIPTION	BALANCE PER BOOK @12/31/95	AUDIT ADJUSTMENTS	BALANCE PER AUDIT @12/31/95	AVERAGE BALANCE @12/31/95
UTILITY PLANT IN SERVICE	4,110	85,747 EX1 900 DS2	90,757	90,467
LAND	500	7,000 EX1	7,500	7,500
ACCUMULATED DEPRECIATION	(843)	(44,108) EX1 (15,056) DS2	(60,007)	(57,990)
CONTRIBUTION IN AID CONSTRUCTION	(1,100)	(59,642) EX1 50 DS3	(60,692)	(60,442)
AMORTIZATION - CIAC	82	36,994 EX1 5,825 DS3	42,901	42,146
PLANT HELD FUTURE USE	0		0	
WORKING CAPITAL	0		0	
ACQUISITION ADJUSTMENT	0		0	
AMORTIZATION - ACQUISITION ADJ	0		0	
	2,749	17,710	20,459	21,681
	2,749	17,710	20,459	21,681

NOTE: PER AUDIT SERVICE REQUEST, WORKING CAPITAL ALLOWANCE NOT REQUIRED.

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

August 23, 1996

John H. Hotaling
Sumter Water Company, Inc.
Post Office Box 26572
Tampa, Florida 33610-6572

RE: Docket No. 960643-WU -- Sumter Water Company, Inc.
Transfer Audit Report - 12 Months Ended December 31, 1995
Audit Control #95-159-2-1

Dear Mr. Hotaling:

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/mas
Enclosure
cc: Public Counsel
Crystal River Utilities, Inc.