

Commissioners:
SUSAN F. CLARK, CHAIRMAN
J. TERRY DEASON
JULIA L. JOHNSON
DIANE K. KIESLING
JOE GARCIA

State of Florida



DIVISION OF RECORDS &
REPORTING
BLANCA S. BAYO
DIRECTOR
(904) 413-6770

Public Service Commission

September 9, 1996

Mr. Gene Cassidy
c/o Culverhouse, Botts, & Story
South Broward Utility, Inc.
Post Office Box 23688
Tampa, Florida 33623-3688

RE: Docket No. 960695-WS -- South Broward Utility, Inc.
Transfer Audit Report - Period Ended July 31, 1996
Audit Control #96-180-2-1

Dear Mr. Cassidy:

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
Blanca S. Bayo

BSB/cls
Enclosure
cc: Public Counsel
Clay Utility Company
Martin Law Firm

MEMORANDUM

September 6, 1996

FILE COPY

TO: DIVISION OF RECORDS AND REPORTING
FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *W*
RE: DOCKET NO. 960695-WS -- SOUTH BROWARD UTILITY, INC.
TRANSFER AUDIT REPORT - PERIOD ENDED JULY 31, 1996
AUDIT CONTROL NO. 96-180-2-1

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:

South Broward Utility, Inc.
Mr. Gene Cassidy
* Culverhouse, Botts & Story
P. O. Box 23688
Tampa, Florida 33623-3688

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 (Brady)
Tampa District Office (Bouckaert)
Research and Regulatory Review (Harvey)
Office of Public Counsel

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- LIN _____
- OPC _____
- RCH _____
- SEC _____
- WAS _____
- OTH _____

DOCUMENT NUMBER-DATE
09492 SEP-6 96
FPSC-RECORDS/REPORTING

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

AS OF JULY 31, 1996

FIELD WORK COMPLETED

AUGUST 21, 1996

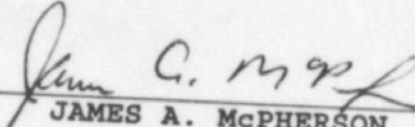
SOUTH BROWARD UTILITY, INC.

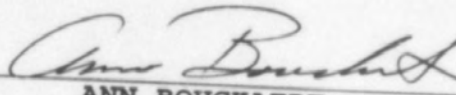
BROWARD COUNTY, FLORIDA

RATE BASE AT EXPECTED DATE OF TRANSFER

DOCKET NO. 960695-WS

AUDIT CONTROL NUMBER 96-180-2-1


JAMES A. McPHERSON
AUDIT MANAGER


ANN BOUCKAERT
PUBLIC UTILITIES SUPERVISOR

DOCUMENT NUMBER-DATE

09492 SEP-68

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 as of July 31, 1996 for South Broward Utility, Inc.'s petition for transfer of Certificates 359-W and 290-S; FPSC Docket 960695-WS.

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 South Broward Utility, Inc.'s books and records, which were 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 incurred \$293,375 in legal fees and related costs of litigation in their efforts to expand their territory. These costs should be recorded as Franchise Costs and amortized over 40 years or recorded as a Miscellaneous Deferred Debits and written off over 5 years, depending on the outcome of this litigation.

(2) The agreed upon purchase price for the sale of the utility is approximately \$5,000,000 greater than the net book value of the assets being purchased. This excess should be recorded as an Acquisition Adjustment in Account 114.

II. AUDIT SCOPE

RATE BASE: Agreed the beginning rate base at December 31, 1988 to the prior rate case audit workpapers. Ascertained that the required adjustments per FPSC Order No. 22844 were made. Scheduled additions and deletions to the plant accounts and contributions in aid of construction (CIAC), from 1-1-89 through 7-31-96. Examined supporting documentation for all plant additions greater than \$30,000. All contributed plant was traced to the corresponding entry to CIAC. Recomputed one years depreciation and amortization using FPSC approved rates and compared average rate to all years for consistency.

OTHER: Determined whether any assets on the seller's books are not being transferred. Verified that the current FPSC approved rates, miscellaneous service charges, service availability charges, and customer deposits were being used by the utility.

DISCLOSURE No. 1

SUBJECT: Franchise Costs

STATEMENT OF FACTS:

The prior FPSC Rate Case Order No. 22844 issued 4-23-90 required the Utility to reclassify Franchise Fees of \$75,460 from a working capital account to Plant in Service (Acct.302 - \$37,730 and Acct.352 - \$37,730). The Utility made this adjustment in 1989. This order also amortized these Franchise Fees using a 40 year life and recalculated accumulated depreciation on all plant at 12-31-88 using FPSC approved rates. The Utility also adjusted their books to this amount. However, the Utility did not record any more amortization expense on these Franchise Fees from 12-31-88 through 6-30-96.

In addition to the above costs the Utility has incurred additional expenses relating to their territory expansion efforts and ensuing lawsuits with the City of Sunrise. These costs total \$293,375 through 7-31-96 and are also recorded as Franchise Costs, divided \$154,732 Water and \$138,643 Sewer. The outcome of this litigation has not yet been determined.

STATEMENT OF OPINION AND RECOMMENDATION:

An adjustment should be made to amortize the original Franchise Costs from 1-1-89 through 7-31-96, the date of transfer. The Utility agreed with this finding and made an adjustment in July 1996 to increase accumulated depreciation \$7,150 for each system.

If the Utility prevails in their expansion efforts the additional amounts paid should also be amortized over a 40 year period. However, if the Utility is not allowed to expand their territory these costs would not have any useful life and should be written off over a much shorter period of time.

I recommend that if the Utility loses their lawsuit these costs should be transferred to Account 186 Miscellaneous Deferred Debits and amortized over a 5 year period.

DISCLOSURE No. 2

SUBJECT: Acquisition Adjustment

STATEMENT OF FACTS:

According to the "Agreement of Purchase and Sale" dated May 10, 1996 between South Broward Utility, Inc. (Seller) and Clay Utility Company (Buyer) the agreed upon purchase price of the utility assets will be approximately \$9,500,000. This agreement further states that the buyer will allocate the purchase price to the assets based on a licensed appraisal. Any excess of purchase price over appraised value will be allocated to intangible assets such as goodwill and customer list.

Accounting Instruction No. 13 of the NARUC Uniform System of Accounts for Class B Utilities requires all amounts included in the accounts for utility plant acquired as an operating unit be recorded at the cost incurred by the person who first devoted the property to utility use. Accounting Instruction No. 16 requires that the excess purchase price greater than book value be recorded in Account 114 - Utility Acquisition Adjustments. This amount should then be amortized as the Commission approves or directs.

Both Clay Utility Company and South Broward Utility, Inc. are owned by the same entity, the Hugh F. Culverhouse Trust.

STATEMENT OF OPINION AND RECOMMENDATION:

Based on the July 31, 1996 general ledger the book value of all assets being purchased net of CIAC was approximately \$4,500,000.

The Buyer, Clay Utility, should record all purchased assets, accumulated depreciation, CIAC and accumulated amortization at the same amount as the Seller had recorded (paid or received) in its general ledger at the date of closing. The excess of the purchase price over the book value transferred (approximately \$5 million) should then be recorded in Account 114 as required.

Since the Buyer and Seller are owned by the same entity, the amount recorded in Account 114 should not be allowed to be included in the Buyer's rate base. The Utility should then amortize this account in the manner that the Commission approves or directs.

COMPANY : SOUTH BROWARD UTILITY, INC.
 SCHEDULE: SUMMARY RATE BASE - WATER
 PERIOD ENDED JULY 31, 1996

DESCRIPTION	BALANCE PER BOOK @ 7-31-96	AUDIT ADJUSTMENTS	BALANCE PER AUDIT @ 7-31-96
UTILITY PLANT IN SERVICE	7,434,509		7,434,509
LAND	110,000		110,000
CONSTRUCTION WORK IN PROGRESS			
ACCUMULATED DEPRECIATION	(1,990,383)		(1,990,383)
CONTRIBUTION IN AID CONSTRUCTION	(4,609,117)		(4,609,117)
AMORTIZATION - CIAC	718,531		718,531
	-----	-----	-----
	1,663,540	0	1,663,540
	=====	=====	=====

NOTE: No Working Capital Allowance was required per the Audit Service Request.

COMPANY : SOUTH BROWARD UTILITY, INC.
 SCHEDULE: SUMMARY RATE BASE - WASTEWATER
 PERIOD ENDED JULY 31, 1996

DESCRIPTION	BALANCE PER BOOK @ 7-31-96	AUDIT ADJUSTMENTS	BALANCE PER AUDIT @ 7-31-96
UTILITY PLANT IN SERVICE	8,236,625		8,236,625
LAND	600,000		600,000
CONSTRUCTION WORK IN PROGRESS	229,126		229,126
ACCUMULATED DEPRECIATION	(1,943,159)		(1,943,159)
CONTRIBUTION IN AID CONSTRUCTION	(5,153,838)		(5,153,838)
AMORTIZATION - CIAC	795,555		795,555
	-----	-----	-----
	2,764,309	0	2,764,309
	=====	=====	=====

NOTE: No Working Capital Allowance was required per the Audit Service Request.