

**FLORIDA PUBLIC SERVICE COMMISSION**

**AUDIT REPORT**

**12 MONTHS ENDED JUNE 30, 1996**

**FIELD WORK COMPLETED**

**SEPTEMBER 18, 1996**

**LAKE SUZY UTILITIES, INC.**

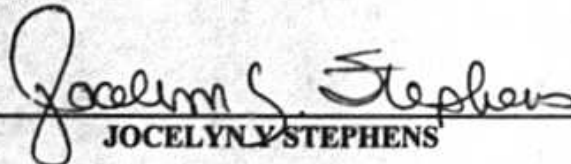
**LAKE SUZY, FLORIDA**

**DESOTO COUNTY**

**STAFF ASSISTED RATE CASE**

**DOCKET NUMBER 960799-WS**

**AUDIT CONTROL NUMBER 96-219-2-1**

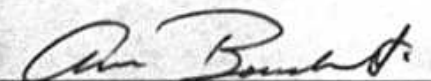
  
\_\_\_\_\_  
JOCELYN S. STEPHENS

**AUDIT STAFF**

**JOE ROHRBACHER**

**MINORITY OPINION**

YES  NO

  
\_\_\_\_\_  
ANN BOUCKAERT  
PUBLIC UTILITIES SUPERVISOR  
TAMPA

DOCUMENT NUMBER-DATE

10823 OCT-98

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 Rate Base, Net Operating Income, and Capital Structure for the twelve month period ending June 30, 1996 for the Lake Suzy Utilities, Inc. Petition for staff assisted rate case, FPSC Docket 960799-WS.

**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 schedules of Rate Base, Net Operating Income and Capital Structure for the twelve month period ending June 30, 1996 represent Lake Suzy 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.

### **Summary Findings:**

Utility failed to record its revenues on the accrual basis.

Utility has begun an expansion of its wastewater treatment facility.

Utility has entered into a 10-year commercial lease agreement for the land that the new percolation ponds are being constructed upon.

## **II. Audit Scope**

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

**Rate Base.** Scheduled plant additions by year from inception to end of test period. Judgmentally selected years for an in-depth analysis. Requested and obtained supporting documentation for analysis of plant. Documented cost of existing land and proposed cost of leased for the new percolation pond. Judgmentally tested costs charged to Construction Work in Progress. Recomputed Accumulated Depreciation based upon average plant balances as determined by staff. Analyzed Imputed and documented Contributions in Aid of Construction (CIAC) based upon utility workpapers. Recomputed Amortization on CIAC. Calculated Working Capital Allowance using O&M method. Determined averaging adjustments for rate base items. Prepared Rate Base Schedule.

Determined projected cost to complete Wastewater Expansion project. Determined costs that were incurred but not recorded by utility, during the test period.

**Net Operating Income (NOI).** Prepared a billing analysis and determined operating revenues. Judgmentally selected expense accounts for analysis. Traced selected items to source documentation. Calculated test period amounts for O & M expenses, depreciation and amortization expense, and taxes other than income. Prepared NOI schedules. Determined amount of unrecorded test period expenses. Obtained documentation for proforma expense items.

**Capital Structure.** Prepared analysis of long-term debt. Traced recorded debt to debt instruments. Prepared schedule of capital structure.

**Other.** Prepared Trial Balance.



## AUDIT EXCEPTION NO. 1

### SUBJECT: UNRECORDED REVENUES

#### STATEMENT OF FACT:

Rule 25-30.115 F.A.C. states "Water and wastewater utilities shall, effective January 1, 1986, maintain its accounts and records in conformity with the 1984 NARUC Uniform Systems of Accounts...." The NARUC Uniform System of Accounts (UsoA) for Class C utilities states, in the accounting instructions, "The books of accounts of all water utilities shall be kept by the double entry method, on an accrual basis. Each utility shall keep its accounts monthly and shall close its books at the end of each calendar year.

Lake Suzy Utilities, Inc. does not accrue income when earned but records monthly sales revenues when payment is received from the customer.

#### AUDITOR OPINION:

Test year revenues were understated by \$7,834 for water sales and overstated by \$3,845 for wastewater sales due to the utility's incorrect posting of monthly revenues to the general ledger.

**AUDIT DISCLOSURE NO. 1**

**SUBJECT: LAND - SEWER**

**STATEMENT OF FACT:**

Utility has entered into a 10-year Commercial Lease agreement for the land that the new percolation ponds is being constructed upon. This lease commenced on April 1, 1995 and is made with Ben or Harriet Shepard, grandparents of the utility president. Annual rental is \$6,000.

The lease was entered into as a requirement in order to receive the operation permit from DEP. DEP requires the land to be under a long-term lease or owned by the utility. Since the utility was unable to purchase the land in April of 1994, the lease was the only option at that time. As stated in section 19 of the Commercial Lease, 80% of the lease payments will be applied towards the purchase price.

Also, Utility has a pending Contract for Sale and Purchase of this same land from Ben or Harriet Shepard. Per utility president, this contract will be executed before December of 1996.

The contract cost of the land, which totals 19.52 +/- acres, is \$292,800. "Purchase price shall be \$15,000 per acre unless appraisal of land per section 19 of Commercial Lease dated 4/1/95 is less than \$15,000 per acre than price shall be set at appraised market value.

**AUDIT DISCLOSURE NO. 2**

**SUBJECT: EXISTING LAND**

**STATEMENT OF FACT:**

In February, 1987, utility entered into a Contract for Sale for 6 acres of land in DeSoto County. Cost of this land was \$150,000. This land was purchased from Ben Shepard and Harriet Shepard.

"The value of the land .....was determined by the value of the land from the 5/8/85 sale of land to Povia-Ballantine Corporation from Ben and Harriet Shepard."

Utility provided staff with a Warranty Deed and promissory note associated with this land purchase. The warranty deed was filed and recorded on 4/25/94 with documentary stamps totaling \$1,050. The documentary stamp rate in 1994 was \$.70/hundred dollars.

Interest on the note is eight percent (8%) per annum. Interest payments shall be paid annually and the principal shall balloon on February 19, 1987.

**AUDIT DISCLOSURE NO. 3**

**SUBJECT: PROJECTED COST OF PLANT EXPANSION**

**STATEMENT OF FACT:**

Utility is involved in the expansion of its Wastewater Treatment Plant (WWTP).

Construction costs recorded in the General Ledger (G/L) at 6/30/96 totaled \$127,857. Utility has projected an additional \$689,283 to complete the WWTP expansion.

An analysis of both the recorded and projected cost of construction follows:

	Recorded	Projected
Land		\$292,800
Engineering	\$ 28,920	
Consent Engineering	421	10,081
87 GPD WWTP	72,483	26,420
Pond Construction	12,331	359,982
Permit	1,637	
Other	12,045	
Misc	20	
	<u>\$ 127,857</u>	<u>\$689,283</u>



**AUDIT DISCLOSURE NO. 4**

**SUBJECT: CHARGES FROM REGULATORY CONSULTANTS**

**STATEMENT OF FACT:**

Subsequent to the test period, utility received bills from Regulatory Consultants for work performed during the period September, 1995 - June 1996.

Per the invoices, the following services were provided:

General Consulting re: water agreements, service availability, capacity fees	\$ 3,239.82
Meetings and telephone conferences Re: Water Service availability Agreement, Review documentation and support for and preparation of Fixed Asset/Depreciation and CIAC/Amortization Schedules	13,778.31
Meetings and telephone conferences re: Preparation of Annual Report; Preparation of Annual Report including Fixed Asset and CIAC Analysis, Accounts Payable Analysis and Tax Analysis	9,067.92

Utility stated that "Since these bills are unusual amounts for any one year, we would like to amortize these costs over a 5 year period at the 80% water, 20% sewer allocation rate."

**AUDITOR OPINION:**

Auditor has included these costs in the test period amount under Contract Services. No adjustment has been made to remove or amortize these dollars from the test period totals.

**AUDIT DISCLOSURE NO. 5**

**SUBJECT: STAFF ADJUSTMENTS - RATE BASE**

**STATEMENT OF FACT:**

Staff performed an analysis of components of rate base. The following adjustments were made:

	<b>Plant in Service</b>	<b>Water</b>	<b>Sewer</b>
1)	Reclassified costs for "Printer" from expense	\$ 511	\$
2)	Adjusted Plant to Staff Computation		( 20,069)
3)	Computed Averaging Adjustment for Plant	( 962)	( 255)
	<b>Construction Work In Progress</b>		
4)	Record CWIP bills received subsequent to test period		50,040
5)	Computed Averaging Adjustment for CWIP		( 67,391)
	<b>Accumulated Depreciation</b>		
6)	Adjusted Accumulated Depreciation to Staff Computation	(15,595)	( 73,801)
7)	Computed Averaging Adjustment for Acc Depr	4,685	8,401
	<b>CIAC</b>		
8)	Adjusted CIAC to Staff Computation	(56,656)	( 31,935)
9)	Computed Averaging Adjustment for CIAC	3,125	
10)	Compute Amortization of CIAC	105,960	100,852
	<b>Amortization of CIAC</b>		
11)	Compute Averaging Adjust to Amort-CIAC	( 6,528)	( 6,753)
	<b>Working Capital Allowance</b>		
12)	Adjust Working Capital Allowance to Staff Comp.	269	2,101

**AUDIT DISCLOSURE NO. 6**

**SUBJECT: STAFF ADJUSTMENTS - NET OPERATING INCOME (NOI)**

**STATEMENT OF FACT:**

Staff performed an analysis of the components of utility's NOI for the test period.

The following adjustments were made:

A/C #	Item Description	Water	Sewer
<b>Operating Revenues</b>			
	To adjust revenues due to utility's incorrect Posting of monthly revenues to the G/L	(\$ 7,834)	\$ 3,845
<b>O &amp; M Expenses</b>			
630/730	Annualize Bookkeeper Salary & Record President's Salary	24,837.12	8,124.57
610/710	Remove out of Period Amount	(29,224.60)	( 866.11)
620/720	Reclassify Capital Item	( 511.06)	( 511.06)
	Remove out of period amount	( 511.60)	
621/721	Remove effect of out-of-period items in year-end JE adjustment	( 961.10)	961.00
630/730	Remove duplicate entry		( 803.95)
	Remove out of period item		( 955.33)
	Remove non-utility amount	( 6,085.02)	( 1,521.25)
	Remove effect of out-of-period items in year-end JE adjustment		1,154.39
	Reclass to Sewer	( 28.42)	
	Reclass from Reg Comm Exp	312.93	312.93
	Reclass to Chemical Expense		( 948.72)
	Record unrecorded expense amount	21,897.65	5,474.40
640/740	Adjust to Staff computation	( 1,112.00)	1,112.00
650	Amortize expenditure over 3 years	( 1,465.07)	
	Remove car pmt. - B/S item	( 331.27)	
665/775	Out of Period	( 2,232.09)	( 171.83)
	Out of Period	( 2,121.63)	2,121.63
	Reclass to Misc	( 183.22)	( 133.25)
	Reclass to Contract Services	( 312.93)	( 312.93)
675/775	Reclass from Reg Comm Exp	183.22	133.25
	Remove YE entry		2,686.87
718	Reclass from Contract Services		948.72
		<u>2,150.91</u>	<u>16,805.33</u>

A/C #	Item Description	Water	Sewer
	<b>Depreciation Expense</b>		
	To adjust to staff computation	\$ 1,369.00	\$ 7,947.00
	<b>Amortization Expense</b>		
	To adjust to staff computation	( 3,321.00)	( 7,390.00)
	<b>Taxes other than Income</b>		
	To adjust to staff computation	4,054.54	( 79.32)



**AUDIT DISCLOSURE NO. 7**

**SUBJECT: PROFORMA EXPENSE ITEMS**

**STATEMENT OF FACT:**

In response to Document/Record Requests, utility provided documentation for known changes in expenses occurring subsequent to the test period.

These items are listed below:

	Water	Sewer
1) Employee Benefits - Health Insurance premium for bookkeeper	\$1,843	\$ 368
2) Increase in Salary for Bookkeeper	5,824	1,456
3) Liability Insurance Coverage - Wastewater Treatment Facility		4,709

**AUDITOR OPINION:**

Staff did not include adjustments to the test period expenses for these changes.

**LAKE SUZY UTILITIES, INC  
SCHEDULE OF RATE BASE - WATER  
AS OF JUNE 30, 1996**

ITEM DESCRIPTION	SOURCE	BALANCE PER COMPANY	AUDIT ADJUSTMENT		STAFF ADJUSTED BALANCE
			DR	CR	
PLANT IN SERVICE	16W	276,824	511	962	276,373
LAND	16W	1,150			1,150
CONSTRUCTION WORK IN PROGRESS					0
ACCUMULATED DEPRECIATION	22W	(67,942)	4,685	15,595	(78,852)
CONTRIBUTION IN AID OF CONSTRUCTION	20W	(332,772)	3,125	56,656	(386,303)
AMORTIZATION OF CIAC	23W	0	105,960	6,528	99,432
WORKING CAPITAL	43W	20,611	269		20,880
			<u>114,550</u>	<u>79,741</u>	
<b>RATE BASE - WATER</b>		<u><u>(102,129)</u></u>			<u><u>(67,320)</u></u>

**TOTAL**

**Note: The description of all adjustments for rate base are included in Audit Disclosure No. 5.**

**LAKE SUZY UTILITIES, INC  
SCHEDULE OF RATE BASE - SEWER  
AS OF JUNE 30, 1996**

ITEM DESCRIPTION	SOURCE	BALANCE PER COMPANY	AUDIT ADJUSTMENT		STAFF ADJUSTED BALANCE
			DR	CR	
PLANT IN SERVICE	16S	324,361		20,069 255	304,037
AND	17S	150,000			150,000
CONSTRUCTION WORK IN PROGRESS	19S	127,857	50,040	67,391	110,506
ACCUMULATED DEPRECIATION	22S	(62,058)	8,401	73,801	(127,457)
CONTRIBUTION IN AID OF CONSTRUCTION	20S	(212,756)		31,935	(244,691)
AMORTIZATION OF CIAC	23S	0	100,852	6,753	94,099
WORKING CAPITAL	43S	5,500	2,101		7,601
			<u>161,394</u>	<u>200,204</u>	
<b>TOTAL</b>		<u><u>332,904</u></u>			<u><u>294,095</u></u>

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**Note: The description of all adjustments for rate base are included in Audit Disclosure No. 5.**

**LAKE SUZY UTILITIES, INC.  
SCHEDULE OF NET OPERATING INCOME - WATER  
FOR THE 12 MONTHS ENDING 6/30/96**

ACCOUNT TITLE	SOURCE	BALANCE PER G/L	DEBIT	CREDIT	STAFF ADJUSTED BALANCE
OPERATING INCOME	41	(126,851.00)		7,834.00	(134,685.00)
O & M EXPENSE	43 (W)	164,888.21	47,230.92	45,080.00	167,039.13
DEPRECIATION EXPENSE	22 (W)	8,002.12	1,369.00		9,371.12
AMORTIZATION EXPENSE	23 (W)	(9,736.00)		3,321.00	(13,057.00)
TAXES OTHER THAN INCOME	53	6,455.96	4,054.54		10,510.50
			52,654.46	56,235.00	
NET OPERATING (INCOME)LOSS		42,759.29			39,178.75

Note: The description of all adjustments for Net Operating Income is included in Audit Disclosure No. 6.



**LAKE SUZY UTILITIES, INC.  
SCHEDULE OF NET OPERATING INCOME - SEWER  
FOR THE 12 MONTHS ENDING 6/30/96**

ACCOUNT TITLE	SOURCE	BALANCE PER G/L	DEBIT		CREDIT	STAFF ADJUSTED BALANCE
OPERATING REVENUES	41	(4,121.00)	3,845.00			(39,280.00)
O & M EXPENSE	43(S)	44,001.44	23,029.76		6,224.43	60,806.77
DEPRECIATION EXPENSE	22(S)	8,855.12	7,947.00			16,802.12
AMORTIZATION EXPENSE	23(S)	(6,117.00)			7,390.00	(13,507.00)
TAXES OTHER THAN INCOME	53	6,092.53			79.32	6,013.21
			34,821.76		13,693.75	
<b>NET OPERATING (INCOME)/LOSS</b>		9,707.09				30,835.10

Note: The description of all adjustments for Net Operating Income is included in Audit Disclosure No. 6.

LAKE SUZY UTILITIES, INC.  
 SCHEDULE OF CAPITAL STRUCTURE  
 AS OF JUNE 30, 1996

DESCRIPTION	BALANCE PER BOOKS	AUDIT ADJUSTMENTS		STAFF ADJUSTED BALANCE	RATIO	COST RATE	WEIGHTED COST OF CAPITAL
		DR	CR				
COMMON STOCK	100			100	0.02%	10.88%	0.00%
EQUITY (PAID IN CAPITAL)	250,748			250,748	44.63%	10.88%	4.86%
RETAINED EARNINGS	7,754			7,754	1.38%	10.88%	0.15%
LONG-TERM DEBT	42,000			42,000	7.48%	9.50%	0.71%
	12,000			12,000	2.14%	8.00%	0.17%
	218,506			218,506	38.89%	8.00%	3.11%
SHORT TERM DEBT	11,643			11,643	2.07%	8.00%	0.17%
	19,037			19,037	3.39%	8.50%	0.29%
CUSTOMER DEPOSITS	-			0	0.00%		0.00%
<b>TOTALS</b>	<u>561,789</u> =====			<u>561,789</u> =====	100.00%		<u>9.45%</u> =====

SOURCE: G/L

W/P 42

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

October 10, 1996

Mr. Dallas Shepard, President  
Lake Suzy Utilities, Inc.  
12408 Southwest Sheri Avenue  
Lake Suzy, Florida 328217

RE: Docket No. 960799-WS -- Lake Suzy Utilities, Inc.  
Staff-Assisted Rate Case Audit Report - Period Ended December 31, 1995  
Audit Control # 96-219 2-1

Dear Mr. Shepard:

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/clc  
Enclosure  
cc: Public Counsel