

Florida Public Service Commission

Audit Report

As of November 30, 1996

Field Work Completed

December 20, 1996

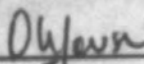
Residential Water Systems, Inc.

Marion County

Transfer Audit

Docket No. 961310-WU

Audit Control No. 96-326-3-1



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Orrett L. Douse  
Audit Manager



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District Audit Supervisor  
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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 the books and records of Residential Water Systems, Inc. in order to prepare the appended Rate Base exhibit to support the Majority Organizational Control Transfer, Docket Number 961310-WU, as of November 30, 1996. The company's books and records were examined to determine compliance with Commission directives and to disclose any transactions or events which may influence Commission decision.

**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 schedule of Rate Base for the period ending November 30, 1996, represents Residential Water Systems, Inc.'s books and records that are not maintained in 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 lacked documentation required to support original cost of plant in service. Field audit staff observed several items of plant that are recorded on the company's books but lack support.
- 2) The utility's books reflect \$200,185 for utility plant in service, of this amount only \$59,359 is supported by the utility's records.
- 3) The utility has not recorded any amounts for Land and Land Rights.
- 4) The utility has recorded \$166,475 for accumulated depreciation. Based on plant assets supported by documentation, field audit staff calculated accumulated depreciation to be \$9,142.
- 5) The utility's books reflect a balance of \$282,731 for Contributions in Aid of Construction (CIAC). Field audit staff has determined CIAC to be \$298,110.
- 6) The utility has recorded \$157,045 for the accumulated amortization of CIAC. This amount is overstated by \$95,906.

- 7) The utility recorded \$66,470 of purchase agreements as "CIAC repaid" in its general ledger.
- 8) The utility is asking for consideration of \$33,050 as pro forma plant.

II. Audit Scope

Rate Base: Scheduled plant through November 30, 1996. Tested 100 percent of the available support documentation. Recomputed accumulated depreciation through November 30, 1996, using plant as scheduled by field audit staff. Toured plant facilities. Observed plant assets that lacked support during plant tour. Verified land value by obtaining the original warranty deed. Verified land is in the utility's name by obtaining the warranty deed that transferred ownership. Recomputed Contributions in Aid of Construction (CIAC) and the accumulated amortization of CIAC through November 30, 1996.

Determined there were no circumstances present that would necessitate an acquisition adjustment.

**AUDIT EXCEPTION NUMBER 1**

**SUBJECT: RECORDS**

**FACTS:** The utility plant accounts reflect a total balance of \$200,185. Of this amount only \$59,359 is supported by documentary evidence.

The utility has not recorded any amount in Account No. 303 - Land and Land Rights.

The utility has not maintained records of its recorded balance of \$282,731 for Contributions in Aid of Construction.

Records of purchase agreements with the developers of the subdivisions served by the utility are incomplete.

(Audit exceptions that follow address the lack of records.)

Rule 25-30.110 (1) (a), F.A.C., requires a utility to preserve its records in accordance with the "Regulations to Govern the Preservation of Records of Electric, Gas and Water utilities" as issued by the National Association of Regulatory Utility Commissioners.

Accounting Instruction 2 (B) states, "All books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner to support fully the facts pertaining to such entries."

**OPINION/RECOMMENDATION:** The utility lacked the documentation required to support original cost of utility plant in service, CIAC and the purchase agreements with the developers.

Field audit staff recommends that the Commission direct the utility to comply with Rule 25-30.110 (1)(a), F.A.C., and Accounting Instruction 2 (B).

**AUDIT EXCEPTION NUMBER 2**

**SUBJECT: UTILITY PLANT IN SERVICE**

**FACTS:** The utility has recorded the following amounts for utility plant in service:

Acct. No. 101181	Unamortized Debt Disc.	\$ 7,121.75
Acct. No. 101301	Franchises	400.00
Acct. No. 101304	Structures & Improve.	35,667.00
Acct. No. 101310	Power Generation Equip.	24,280.59
Acct. No. 101311	Pumping Equipment	20,655.16
Acct. No. 101320	Water Treatment Equip.	89,498.00
Acct. No. 101330	Distribution Reservoir	1,188.81
Acct. No. 101331	Trans. & Distribution Mains	860.56
Acct. No. 101334	Meters & Meter Installations	9,227.09
Acct. No. 101339	Other Tangible Plant	4,920.00
Acct. No. 101340	Office Furniture & Equip.	<u>6,366.34</u>
	Total Utility Plant	<u>\$200,185.30</u>

**OPINION/RECOMMENDATION:** Documentation provided by the utility supports only \$59,358.96 of the plant recorded in the utility's books. Field audit staff recommends that utility plant in service be reduced by \$140,826.34 (see schedule attached).

RESIDENTIAL WATER SYSTEMS, INC.  
 UTILITY PLANT IN SERVICE - SUMMARY  
 AS OF 11/30/96  
 DOCKET # 961310-WU

Acct. No.	Acct. Description	AMOUNT PER AUDIT	AMOUNT PER G/L	Difference
181	Unamortized Debt Discount	0.00	7,121.75	(7,121.75) ##
301	Organization	0.00	400.00	(400.00) **
302	Franchises	0.00	0.00	0.00
304	Structures & Improvements	0.00	35,667.00	(35,667.00)
310	Power Generation Equipment	13,871.82	24,280.59	(10,408.77)
311	Pumping Equipment	10,618.31	20,655.16	(10,036.85)
320	Water Treatment Equipment	0.00	89,498.00	(89,498.00)
330	Distribution Reservoirs	6,868.83	1,188.81	5,680.02
331	Transmission & Distribution Mains	28,000.00	860.56	27,139.44
334	Meters & Meter Installations	0.00	9,227.09	(9,227.09)
339	Other Plant & Misc. Equipment	0.00	4,920.00	(4,920.00)
340	Office Furniture & Equipment	0.00	6,366.34	(6,366.34)
<b>TOTAL</b>		<b>69,358.96</b>	<b>200,185.30</b>	<b>(140,826.34)</b>

NOTE: ## THIS AMOUNT BELONGS IN THE COST OF CAPITAL.  
 THIS IS NOT UTILITY PLANT IN SERVICE.

\*\* BELONGS IN Acct. No. 302(if it had support).

**AUDIT EXCEPTION NUMBER 3**

**SUBJECT: UTILITY LAND**

**FACTS:** The utility has not recorded any amount in Account No. 303 - Land and Land Rights.

The Uniform System of Accounts (USOA) requires Account No. 303 to reflect the costs of land used in water operations.

**OPINION/RECOMMENDATION:** Field audit staff used the records at the Marion County Courthouse to determine the original cost of utility land.

Tract "A" in High Pointe subdivision costs the utility \$4,502.74 per acre. Utility land is .67 acre, thus a cost of \$3,016.84 ( $4,502.74 \times .67$ ).

Tract "A" in Suntree subdivision costs the utility \$6,250.16 per acre. Utility land is .75 acre, thus a cost of \$4,687.62 ( $6,250.16 \times .75$ ).

Total original cost of utility land as determined by staff is \$7,704.46 ( $3,016.84 + 4,687.62$ ).

Staff recommends that the Commission directs the utility to adjust its books to the amount determined by the field audit staff.



**AUDIT EXCEPTION NUMBER 4**

**SUBJECT: ACCUMULATED DEPRECIATION**

**FACTS:** The utility's books reflect a balance of \$166,475.30 for accumulated depreciation as of November 30, 1996.

**OPINION/RECOMMENDATION:** Based on utility plant in service supported by documentation, field audit staff computed accumulated depreciation as of November 30, 1996 to be \$9,141.99.

Audit staff recommends that accumulated depreciation be reduced by (\$157,333.31) (\$9,141.99 - \$166,475.30).

(See schedule attached).

RESIDENTIAL WATER SYSTEMS, INC.  
 ACCUMULATED DEPRECIATION  
 AS OF 11/30/96  
 TRANSFER AUDIT (dkt# 961310-WU)

The utility provided support for \$28,000 of additions in 1984 and \$31,358.96 in 1996.  
 There were no records of any retirements.  
 Plant additions are subject to 1/2 year convention in the year of addition.

Acct. No.	ACCOUNT DESCRIPTION	DEPR. RATE	PLANT BAL. @ 12/31/83	ACCUM. DEPR.	1984 ADDITION	PLANT BAL. @ 12/31/84	ACCUM. DEPR.	PLANT BAL. @ 12/31/85	ACCUM. DEPR.	PLANT BAL. @ 12/31/86	ACCUM. DEPR.	PLANT BAL. @ 12/31/87	ACCUM. DEPR.
331	Trans. & Distribution Mains	2.50%	0.00	0.00	28,000.00	28,000.00	350.00	28,000.00	1,050.00	28,000.00	1,750.00	28,000.00	2,450.00

Acct. No.	ACCOUNT DESCRIPTION	DEPR. RATE	PLANT BAL. @ 12/31/87	ACCUM. DEPR.	PLANT BAL. @ 12/31/88	ACCUM. DEPR.	PLANT BAL. @ 12/31/89	ACCUM. DEPR.	PLANT BAL. @ 12/31/90	ACCUM. DEPR.	PLANT BAL. @ 12/31/91	ACCUM. DEPR.
331	Trans. & Distribution Mains	2.50%	28,000.00	2,450.00	28,000.00	3,150.00	28,000.00	3,850.00	28,000.00	4,550.00	28,000.00	5,250.00

Acct. No.	ACCOUNT DESCRIPTION	DEPR. RATE	PLANT BAL. @ 12/31/91	ACCUM. DEPR.	PLANT BAL. @ 12/31/92	ACCUM. DEPR.	PLANT BAL. @ 12/31/93	ACCUM. DEPR.	PLANT BAL. @ 12/31/94	ACCUM. DEPR.	PLANT BAL. @ 12/31/95	ACCUM. DEPR.
331	Trans. & Distribution Mains	2.50%	28,000.00	5,250.00	28,000.00	6,950.00	28,000.00	8,650.00	28,000.00	10,350.00	28,000.00	12,050.00

Acct. No.	ACCOUNT DESCRIPTION	DEPR. RATE	PLANT BAL. @ 12/31/95	ACCUM. DEPR.	1996 ADDITION	PLANT BAL. @ 11/30/96	ACCUM. DEPR.
310	Power Generation Equip.	2.50%	0.00	0.00	13,871.82	13,871.82	173.40
311	Pumping Equipment	2.50%	0.00	0.00	10,618.31	10,618.31	132.73
330	Distrib. Reservoirs & S/P	2.50%	0.00	0.00	6,868.83	6,868.83	85.86
331	Trans. & Distribution Mains	2.50%	28,000.00	8,050.00	0.00	28,000.00	8,750.00
ACCUMULATED DEPRECIATION @ 11/30/96 PER AUDIT							8,141.99
ACCUMULATED DEPRECIATION @ 11/30/96 PER GL							186,475.30
ADJUSTMENT							(187,333.31)

**AUDIT EXCEPTION NUMBER 5**

**SUBJECT: CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)  
AMORTIZATION OF CIAC**

**FACTS:** The utility has recorded in its books a balance of \$282,731 for CIAC and \$157,044.85 for the accumulated amortization of CIAC .

**OPINION/RECOMMENDATION:** Field audit staff has determined the correct balance for CIAC to be \$298,110, and the accumulated amortization of CIAC to be \$61,138. 44.

Audit staff recommends that the Commission direct the utility to increase its CIAC by \$15,379 and reduce its accumulated amortization of CIAC by \$95,906.41 (see schedules attached).

**RESIDENTIAL WATER SYSTEMS, INC.  
CONTRIBUTIONS IN AID OF CONSTRUCTION  
PERIOD ENDED 11/30/96  
DOCKET # 961310-WU**

The utility has recorded on its books (\$282,731.00) for CIAC @ 11/30/96.  
The utility is unable to provide COMPETENT SUBSTANTIAL evidence to support this amount.

Field audit staff has imputed CIAC using the following information:

- (1) Number of connections per year
- (2) Connection fee of \$ 500 per connection & \$70 per meter installed [see authorized tariff]

YEAR	# OF CONNECT.	CONNECT FEE \$ \$	CIAC	CUMULAT CIAC
1983	0			
1984	53	570.00	30,210.00	30,210.00
1985	39	570.00	22,230.00	52,440.00
1986	32	570.00	18,240.00	70,680.00
1987	79	570.00	45,030.00	115,710.00
1988	99	570.00	56,430.00	172,140.00
1989	53	570.00	30,210.00	202,350.00
1990	27	570.00	15,390.00	217,740.00
1991	21	570.00	11,970.00	229,710.00
1992	26	570.00	14,820.00	244,530.00
1993	39	570.00	22,230.00	266,760.00
1994	18	570.00	10,260.00	277,020.00
1995	28	570.00	15,960.00	292,980.00
1996**	9	570.00	5,130.00	298,110.00
<b>TOTAL</b>	<b>523</b>		<b>298,110.00</b>	

\*\* As of 11/30/96

CONTRIBUTIONS IN AID OF CONSTRUCTION @ 11/30/96 PER AUDI	298,110.00
CONTRIBUTIONS IN AID OF CONSTRUCTION @ 11/30/96 PER G/L	282,731.00
AUDIT ADJUSTMENT	15,379.00

RESIDENTIAL WATER SYSTEMS, INC.  
 ACCUMULATED AMORTIZATION OF CIAC  
 PERIOD ENDED 11/30/96  
 DOCKET # 961310-WU

Field audit staff amortized CIAC at the rate of 2.5% per year.  
 Amortization of CIAC for 1996 is for 11 months (11/12).

YEAR	CIAC	CUMULAT CIAC	AMORTIZ. RATE	AMORTIZ. PER YEAR
1983				
1984	30,210.00	30,210.00	2.50%	755.25
1985	22,230.00	52,440.00	2.50%	1,311.00
1986	18,240.00	70,680.00	2.50%	1,767.00
1987	45,030.00	115,710.00	2.50%	2,892.75
1988	58,430.00	172,140.00	2.50%	4,303.50
1989	30,210.00	202,350.00	2.50%	5,058.75
1990	15,390.00	217,740.00	2.50%	5,443.50
1991	11,970.00	229,710.00	2.50%	5,742.75
1992	14,820.00	244,530.00	2.50%	6,113.25
1993	22,230.00	266,760.00	2.50%	6,669.00
1994	10,260.00	277,020.00	2.50%	6,925.50
1995	15,960.00	292,980.00	2.50%	7,324.50
1996**	5,130.00	298,110.00	2.50%	6,831.69 ##
TOTAL	298,110.00			61,138.44

\*\* As of 11/30/96

## 11 Months amortization.

ACCUM. AMORT. OF CIAC PER AUDIT	61,138.44
ACCUM. AMORT. OF CIAC PER BOOKS	157,044.85
AUDIT ADJUSTMENT	(95,906.41)

**AUDIT EXCEPTION NUMBER 6**

**SUBJECT: PURCHASE AGREEMENTS**

**FACTS:** The utility has recorded \$66,470 in an account titled "CIAC Repaid."

The utility's representative has orally represented that the amounts in this account are payments to developers for the purchase of the water distribution systems installed by said developers in the subdivisions served by the utility.

The utility paid each developer \$200 per lot sold.

The utility lacked support for the entire amount of \$66,470.

**OPINION/RECOMMENDATION:** The utility provided partial copies of two agreements in which the utility paid the developers \$200 for each lot the developers sold, in return the utility became the owner of the water system which the developers had installed in the different subdivisions.

The utility usually paid the \$200 after it has collected the tariff authorized connection fee of \$570 from each lot owner.

Field audit staff believes that the agreements are purchase agreements and should be treated as such. The \$66,470 is for plant additions that are already included in the utility's plant in service balance of \$200,185.30.

The utility provided support for \$21,800 of the \$66,470 recorded as CIAC Repaid.

It is recommended that the Commission orders the utility to treat the \$66,470 as purchasing the water distribution systems in the different subdivisions, and that the utility eliminates its Account No. 271002 - CIAC Repaid.

**AUDIT DISCLOSURE NUMBER 1**

**SUBJECT: PRO FORMA PLANT**

**FACTS:** The utility has requested that the following be included in rate base as pro forma plant:

<u>Acct.</u>	<u>Description</u>	<u>Amount</u>
304	Fence	\$ 1,200
330	20K Tank	26,100
330	Install tank	250
330	Piping/fittings	2,500
330	Connect tank to wells	1,500
330	Paint tank	1,000
330	Engineering	500
	<u>Total</u>	<u>\$33,050</u>

**OPINION/RECOMMENDATION:** Field audit staff reviewed bids for doing the plant improvements and the bank loan documents for financing the job.

Staff recommends that the utility's request be granted.

SCHEDULE NO. 1

SCHEDULE FOR TRANSFER AUDIT  
 RESIDENTIAL WATER SYSTEMS, INC.  
 DOCKET No. 961310-WU  
 RATE BASE  
 PERIOD ENDED 11/30/96

DESCRIPTION	PER BOOKS 11/30/96	AUDIT EXCP.	REFER	PER AUDIT 11/30/96
UTILITY PLANT IN SERVICE	200,185	(140,826)	E-2	59,359
LAND	0	7,704	E-3	7,704
CIAC	(282,731)	(15,379)	E-5	(298,110)
AMORTIZATION OF CIAC	157,045	(95,906)	E-5	61,139
ACCUMUL. DEPRECIATION	(166,475)	157,333	E-4	(9,142)
WORKING CAPITAL	0	0		0
TOTAL	(91,976)	(87,074)		(179,050)

REQUIRED FOOTNOTES:

- (1) WORKING CAPITAL NOT APPLICABLE IN TRANSFER AUDIT.
- (2) AUDIT ADJUSTMENTS DO NOT INCLUDE AUDIT DISCLOSURES.



State of Florida

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



DIVISION OF RECORDS &  
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## Public Service Commission

February 4, 1997

Mr. Charles deMenzes  
Residential Water Systems, Inc.  
Post Office Box 5220  
Ocala, Florida 34478-5220

RE: Docket No. 961310-WU -- Residential Water Systems, Inc.  
Transfer Audit Report  
Audit Control # 96-326-3-1

Dear Mr. deMenzes:

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