

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

TWELVE MONTHS ENDED DECEMBER 31, 1996

FIELD WORK COMPLETED

JANUARY 31, 1997

KIRBY D. MORGAN, INC.

LAKE CITY, FLORIDA

COLUMBIA COUNTY

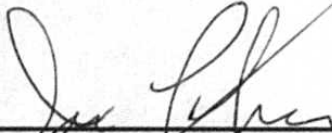
STAFF-ASSISTED RATE CASE

DOCKET NUMBER 961332-SU

AUDIT CONTROL NUMBER 96-345-1-2



**RICHARD F. BROWN
AUDIT MANAGER**



**IAN J. FORBES
DISTRICT AUDIT SUPERVISOR
ORLANDO**

DOCUMENT NUMBER-DATE

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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 prepare proposed schedules of Rate Base, Net Operating Income and Capital Structure for the twelve months ended December 31, 1996, for Kirby D. Morgan and prepared pro forma adjustments which are presented as audit disclosures.

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 ended December 31, 1996, represent Kirby D. Morgan, Inc.'s books and records 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.

II. Audit Scope

The opinions contained in this report are based on the audit work described below. When used in this report, the following definition shall apply.

Compiled: The audit staff reconciled the exhibit amounts with the general ledger, visually scanned accounts for error or inconsistency, disclosed any unresolved error, irregularity, or inconsistency; and except as noted, performed no other audit work.

RATE BASE: Prepared Kirby D. Morgan, Inc.'s wastewater rate base at December 31, 1996. Traced all wastewater plant additions made available by the utility from May 26, 1994 through December 31, 1996, to supporting documentation. Recomputed depreciation and the reserve of December 31, 1996. Computed the working capital allowance on 1996 staff-adjusted operation and maintenance expense.

NET OPERATING INCOME: Prepared wastewater net operating income statement for the twelve-month period ended December 31, 1996. Traced all test year expenses to source documentation. Recalculated individual test year billings on a sample basis.

CAPITAL STRUCTURE: Compiled Kirby D. Morgan, Inc.'s equity balance at December 31, 1996.

OTHER: Scanned the utility federal income tax returns for the 1995 and 1996 calendar years. Toured the utility wastewater plant facilities.

AUDIT EXCEPTION NO. 1

SUBJECT: BOOKS AND RECORDS

FACTS: The books and records of Kirby D. Morgan, Inc., were not in substantial compliance with NARUC Wastewater, Class "C," Accounting Instruction 2. A. and B.

The utility maintains a cash receipts and disbursements' ledger reflecting entries absent of NARUC account descriptions and numbering.

Operating and capital expenditures, in many instances, were paid by related company, Eastside Village Realty, and Mr. Morgan, personally.

Data from 1996 financial statements did not reconcile to that summarized per the cash receipts and disbursements' ledger.

OPINION/CONCLUSIONS: Field staff, due to the aforesaid accounting deficiencies, classified the data in accordance with NARUC and reflected the information via the appended schedule of net operating income and rate base as staff-unadjusted balances.

RECOMMENDATION: Direct the utility to maintain its books and records in compliance with NARUC Wastewater, Class "C" instructions.

AUDIT DISCLOSURE NO. 1

SUBJECT: UTILITY PLANT-IN-SERVICE

FACTS: Kirby D. Morgan, Inc., purchased the wastewater system from Kermit R. Horne on April 19, 1995, for \$50,000.

Mr. Horne could not make available any documentation in support of plant investment; however, his accountant disclosed in memorandum to Mr. Morgan that the system was valued at \$52,291. He additionally stated that the former owner never received tax benefits as the utility was part of a tax exempt organization.

Wastewater additions of \$56,407.56, \$1,536.33, and \$36,184.01 were reflected in 1994, 1995, and 1996, respectively.

The 1994 and 1995 additions were written off via Mr. Morgan's personal federal tax returns.

OPINION/CONCLUSIONS: PSC staff engineer is preparing an original cost study. Field staff defers to the engineer and analyst for disposition as to whether the original cost of the system is partially or fully contributed and status of the purchase by Mr. Morgan. The 1996 plant additions are the only capital expenditures reflected via the appended rate base.

AUDIT DISCLOSURE NO. 2

SUBJECT: MANAGEMENT AGREEMENT

FACTS: A management agreement was executed on January 1, 1997, between Eastside Village Realty, Inc., and Kirby D. Morgan, Inc.

Eastside Village Realty, for a fee of \$13,140.00 annually, will provide full management to the utility. Eastside will oversee all aspects of operations and provide all bookkeeping services.

OPINION/CONCLUSION: Defer to Tallahassee analyst for disposition.

KIRBY D. MORGAN
WASTEWATER RATE BASE
@ 12/31/96

	Staff Balance @ <u>12/31/96</u>
Utility Plant-in-Service	\$36,184.01
Accumulated Depreciation	(737.76)
Working Capital Allowance	<u>1,951.06</u>
RATE BASE	<u>\$37,397.31</u>

Exhibit II

KIRBY D. MORGAN, INC.
WASTEWATER NET OPERATING INCOME
@ 12/31/96

	Staff Balance @ <u>12/31/96</u>
Operating Revenues	\$20,592.06
Operating Expense	
O & M Expense	15,608.45
Depreciation Expense	737.76
Taxes Other Than Income	626.00
Amortization Expense	<u>362.50</u>
Total Operating Expenses	<u>\$17,334.71</u>
Net Operating Expenses	<u>\$ 3,257.29</u>

Exhibit III

KIRBY D. MORGAN, INC.
COST OF CAPITAL
@ 12/31/96

	<u>COST</u> <u>@</u> <u>12/31/96</u>	<u>RATIO</u>	<u>COST</u> <u>RATE</u>	<u>WEIGHTED</u> <u>COST OF</u> <u>CAPITAL</u>
EQUITY	\$35,446.25	100%	9.05	9.05%

Equity per Order PSC-96-0729-FOF-WS issued 5/31/96.

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

February 17, 1997

Mr. Kirby D. Morgan
Kirby D. Morgan, Inc.
Post Office Drawer 2939
Lake City, Florida 32056-2939

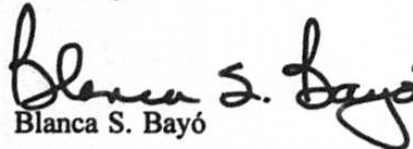
RE: Docket No. 961332-SU -- Kirby D. Morgan, Inc.
Staff-assisted Rate Audit Report
Audit Control # 96-345-1-2

Dear Mr. Morgan:

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/clis
Enclosure
cc: Public Counsel