

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

AT JANUARY 9, 1997

FIELD WORK COMPLETED

JULY 19, 1997

KEEN SALES AND RENTALS, INC.

HAINES CITY, FLORIDA

POLK COUNTY

RATE BASE AT TRANSFER AUDIT

DOCKET NUMBER ~~970120-WU~~

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AUDIT CONTROL NUMBER 97-056-3-1



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DOCUMENT NUMBER-DATE

07804 AUG-15

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 a schedule of Rate Base at January 9, 1997, for Keen Sales and Rentals, Inc. pursuant to a Certificate Transfer, FPSC Docket 970201-WU. The audit exit conference was held June 26, 1997.

Scope Limitation: The seller, S & S Utilities, Inc., could not provide any documentation to support historical cost of plant-in-service. Accordingly, rate base at transfer could not be established by 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 work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

Opinion: We were unable to prepare a schedule of Rate Base at January 9, 1997, due to company's 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:

The filed Exhibits F-1 and F-2 (Bill of Sale and Warranty Deed) are incorrectly dated January 9, 1996.

Seller's representations establish contributions-in-aid-of-construction at \$2,800.00.

The rates for utility service filed in the transfer application are misstated.

Utility land was valued at \$700.00 when first dedicated to public service in 1959.

II. AUDIT SCOPE

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

RATE BASE: Interviewed both buyer and seller and obtained seller's representations as to contributions-in-aid-of-construction amounts and timing. Obtained corrected copy of warrant deed and tariff sheets filed by buyer. Determined historical cost of utility land by researching Polk County Courthouse records. Verified there were no extraordinary circumstances which would support an acquisition adjustment.

TARIFF: Verified tariff charges by both seller and buyer.

OTHER: Obtained copy of only available federal tax return from the seller. Obtained copy of utility as-built engineering plan for utility distribution system.

Exception One

Subject: Seller's Books and Records

Facts: The Uniform System of Accounts Accounting Instruction 2 requires company books "be kept by the double entry method, on an accrual basis."

The seller's records consisted of two years' (1995 and 1996) worth of canceled checks and bank statements, 1995 customer billing information, and a few expense invoices for 1995 and 1996 (several electric bills and one chlorine gas bill). The seller also provided a Department of Environmental Protection permit to install a hydromatic water tank issued March 8, 1984, and a photocopy of the water system "as built" engineering drawing. Only tax year 1993 federal tax return was available, 1996 having not been filed as of audit date.

Opinion: The seller's books and records do not comply with the Uniform System of Accounts. The seller's records are unable to support either plant-in-service or utility expenses and are in violation of Accounting Instruction 2.

Recommendation: No recommendation is made as the seller no longer controls the utility.

Disclosure No. 1

Subject: Application for Certificate Transfer

Facts: The buyer, Keen Sales and Rentals, Inc., filed its application for transfer filing February 12, 1997. The utility was purchased on January 9, 1997.

Exhibits "F" - 1 and "F" - 2 are a Bill of Sale and Warranty Deed, which are both dated January 9, 1996.

The company is charging a base rate of \$10.58 which includes the first 3,000 gallons. Additional gallons are billed at \$0.00124.

Original Tariff Sheet 13.0 in the filing reflects rates as \$10.35 base rate, including the first 5,000 gallons of water. Additional gallons are billed at \$0.00121.

The buyer provided the staff auditor corrected copies of the Bill of Sale, Warranty Deed and Tariff Sheet 13.0 via facsimile on June 27, 1997.

Opinion: As the buyer has corrected the filing errors, this disclosure is provided for informational purposes only.

Disclosure No. 2

Subject: Contributions-in-Aid-of-Construction (CIAC)

Facts: Shortly after the seller purchased the water system in 1983, the utility installed meters to every service connection and billed each customer \$20.00 for the cost of the meter. At that time there were 80 customers connected to the system.

Between 1983 and January 9, 1997, date of sale, the utility added four more customers and charged them \$300.00 each as a tap-in/connection charge.

Opinion: The amounts collected for the meters and tap-in connection charge represent CIAC amounting to \$2,800.00 as shown below.

80 initial customers charged \$20.00 each equals	\$1,600.00
4 additional customers charged \$300.00 each equals	<u>1,200.00</u>
Total CIAC	<u>\$2,800.00</u>

Disclosure No. 3

Subject: Buyer/Seller Billing Rates

Facts: The utility was not certificated by the Commission prior to the sale on January 9, 1997, and therefore did not have Commission-approved rates. Buyer and seller rates charged are listed below:

Seller rates for water service were (per month):

\$9.85 base rate (includes up to 5,000 gallons)

\$0.00115 gallon over 5,000 gallons

Buyer rates for water service are (per month):

\$10.58 base rate (includes up to 3,000 gallons)

\$0.00124 gallon over 3,000 gallons

Disclosure No. 4

Subject: Utility Land

Facts: The utility plant is located on Lot 102 of Lake Region Paradise Island subdivision in Polk County.

The land for the entire subdivision was purchased on June 30, 1959 by J. R. Paul, trustee. One half interest in this land was subsequently sold to William F. Morrison.

Lot 102 of the subdivision was platted for utility use in 1959. The plat for the entire subdivision was approved on March 23, 1960, as was the as-built plan for the utility transmission and distribution system. The subdivision was platted for 102 lots plus roads and a park.

During June 1979, the utility land was deeded to Lake Region Utilities, Inc. by J. R. Paul and William F. Morrison. In the early 1980s, the utility was sold to the seller in this Transfer of Certificate audit, S and S Utilities, Inc.

Valuation of the entire subdivision in 1959, the date the utility was platted, was \$71,000.00 based upon the documentary stamps affixed to the mortgage deed.

Opinion: Since lot sizes in the subdivision vary in size, both larger and smaller than the utility lot, the utility land is considered an average size for the subdivision. Based on this reasoning, the utility land is valued at \$700.00 in 1959, the date the land was dedicated to utility service. (Purchase price of \$71,000 divided by 102 lots equals approximately \$700.00.)

Recommendation: The Commission accept \$700.00 as the historical cost of utility land when first dedicated to public service.