

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

12 MONTHS ENDED JULY 31, 1997

FIELD WORK COMPLETED

SEPTEMBER 12, 1997

S. H. UTILITIES, INC.

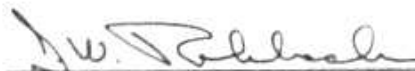
NEW PORT RICHEY, FLORIDA

PASCO COUNTY

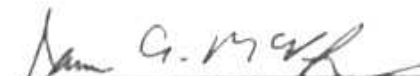
CERTIFICATE TRANSFER AUDIT

DOCKET NO. 970822-WU

AUDIT CONTROL NUMBER 97-218-2-1



**JOSEPH W. ROHRBACHER
AUDIT MANAGER**



**JAMES A. MCPHERSON
REGULATORY ANALYST SUPERVISOR**

19049 12/23/97
FISCAL REPORTING

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AUDIT PURPOSE: We have applied the procedures described in Section II of this report to prepare proposed schedule of Rate Base for the twelve month period ending July 31, 1997 for the S. H. Utilities, Inc. Certificate Transfer, FPSC Docket 970822-WU.

DISCLAIM PUBLIC USE: This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should 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 auditing standards and produce audited financial statements for public use.

OPINION: The schedule of Rate Base represents S. H. Utilities, Inc. 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 is not using current approved depreciation and amortization rates. It is using the composite rate established in 1986 by prior Order No. 17434, but is not adjusting the composite rate for yearly plant additions..

(2) The utility was unable to provide invoices in support of additions to plant in service.

II. AUDIT SCOPE

RATE BASE: Reconciled beginning rate base to prior Order No 17434 establishing Rate Base as of July 31, 1986. Scheduled and tested 100% of plant and CIAC additions for the period 08/01/86 through 07/31/97. Computed and scheduled accumulated depreciation (plant) and accumulated amortization (CIAC) based upon staff adjusted balances for plant and CIAC using rates that were approved during prior rate proceedings for the above period. Made appropriate adjustments to same.

AUDIT DISCLOSURE NO. 1

SUBJECT: ACCUMULATED DEPRECIATION - AMORTIZATION OF CIAC

STATEMENT OF FACT: Commission Order No. 17434, issued April 20, 1987, calculated accumulated depreciation and amortization of CIAC by using the yearly composite depreciation rate. This rate was 4.38% for the test year ending 07-31-86.

The utility is using the rate of 4.38% for yearly depreciation and amortization of CIAC which is recorded at year-end for preparation of the Annual Report.

The auditor believes the composite rate should be adjusted yearly to reflect yearly plant additions and therefore developed accumulated depreciation and CIAC amortization each year since the last audit using rates prescribed by Rule 25-30.140 F. A. C.

AUDITOR OPINION:

The utility should adjust the books to reflect accumulated depreciation and CIAC amortization using the Commission approved composite rate, adjusted annually to reflect plant additions. The following adjustment is needed:

	<u>Accum Deprc</u>	<u>Accum Amortz</u>
Balance per books @07-31-97	\$77,229	\$47,489
Adjust for approved rate	<u>6,904</u>	<u>3,448</u>
Balance per audit	<u>\$84,133</u>	<u>\$50,937</u>

AUDIT DISCLOSURE NO. 2

SUBJECT: PLANT IN SERVICE

STATEMENT OF FACT: Commission Order No. 17434, issued April 20, 1987, established rate base for S. H. Utilities, Inc. Included in rate base were pro-forma additions to plant totaling \$15,500 which were required for the utility to be in compliance with Department of Environmental Regulation (DER) standards.

The utility President stated the improvements were made but was unable to produce invoices substantiating the costs.

The following charges were made to plant in service to comply with DER requirements.

- | | |
|---|----------|
| 1. Installation of a new hydropneumatic tank at well #2
and repair and painting of tank at well #1 | \$16,885 |
| 2. Repairs to main pump at well #1 | 5,250 |
| 3. Replace roof at well house #1 | 1,001 |

In addition the utility installed a new flow meter costing \$1,555 and a 10 HP submersible pump at well #2 costing \$5,640 since rate base was last established, but could only substantiate \$4047 of these additions.

AUDITOR OPINION:

The above charges to plant in service should be allowed since it appears they were incurred in order to bring the utility in compliance with all applicable standards set by the Department of Environmental Protection (formally DER). A tour of the plant sites revealed that two storage tanks were being used by the utility.

Since the plant could not be supported by invoices, it should be subject to review by an engineer for reasonableness.

S. H. UTILITIES, INC.
 RATE BASE - WATER
 12 MOS ENDED 87-31-87

DESCRIPTION	W/P	BALANCE PER BOOK @07/31/87	AUDIT ADJUSTMENTS	BALANCE PER AUDIT @07/31/87
UTILITY PLANT IN SERVICE	16	103,143		103,143
LAND	16	3,450		3,450
ACCUMULATED DEPRECIATION	22	(77,229)	(6,904) D1	(64,133)
CONTRIBUTION IN AID CONSTRUCTION	20	(52,466)		(52,466)
AMORTIZATION - CIAC	20	47,489	3,448 D1	50,937
PLANT HELD FUTURE USE		0		0
WORKING CAPITAL		0		0
ACQUISITION ADJUSTMENT		0		0
AMORTIZATION - ACQUISITION ADJ		0		0
		<u>24,355</u>	<u>(3,456)</u>	<u>20,899</u>
	

STATE OF FLORIDA

Commissioners:
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J. TERRY DEASON
SUSAN F. CLARK
DIANE K. KIESLING
JOE GARCIA



DIVISION OF RECORDS & REPORTING
BLANCA S. BAYO
DIRECTOR
(850) 413-6770

Public Service Commission

September 26, 1997

Mr. James A. Cochran
S. H. Utilities, Inc.
7552 Congress Street, Suite 4
New Port Richey, Florida 34653-1106

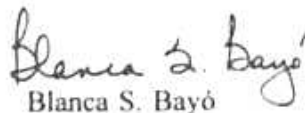
Re: Docket No. 970822-WU -- S. H. Utilities, Inc.
Audit Report - Establish Rate Base at Time of Transfer
Audit Control # 97-218-2-1

Dear Mr. Cochran:

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/DNV/cls
Enclosure
cc: Public Counsel
Lindrick Service Corporation