

STATE OF FLORIDA

ORIGINAL

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TIMOTHY DEVLIN, DIRECTOR
AUDITING & FINANCIAL ANALYSIS
(850) 413-6480

Public Service Commission

April 14, 1999

Mr. Joe K. Blacketer
South Seas Utility Company
8270-105 Collete Parkway
Ft. Myers, FL 33919-5107

Re: Docket No. 982017-SU; South Seas Utility Company
Audit Report - Transfer of Certificate
Audit Control No. 99-015-4-1

Mr. Blacketer:

The enclosed audit report is forwarded for your review. If you desire to file a response to the audit, please file one with the Division of Records and Reporting so it may be forwarded for consideration by the staff analysts in their review of the audit.

Sincerely,

Denise N. Vandiver
Bureau Chief - Auditing

DNV:sp
Enclosure

cc: Division of Records and Reporting
Division of Auditing and Financial Analysis (Devlin/Causseaux/File Folder)
Division of Water and Wastewater
Miami District Office (Welch)
Division of Legal Services

Office of Public Counsel
Research and Regulatory Review (Harvey)

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING*

Miami District Office

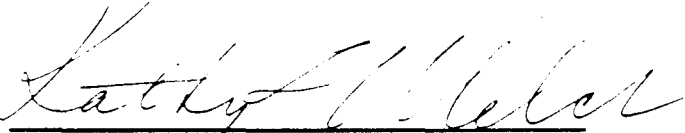
SOUTH SEAS UTILITY COMPANY

TRANSFER OF CERTIFICATE

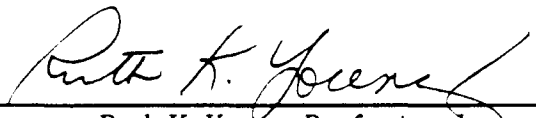
HISTORICAL YEAR END JANUARY 31, 1999

AUDIT CONTROL NO. 99-015-4-1

DOCKET NUMBER 982017-SU



Kathy L. Welch, Audit Manager



*Ruth K. Young, Professional
Accountant Specialist*

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT**

April 5, 1999

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have prescribed the procedures described later in this report to audit the accompanying schedule of Rate Base for the historical period ended January 31, 1999, for South Seas Utility Company. This schedule was prepared by staff using the company's general ledger.

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 work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

In our opinion, the schedule referred to above presents fairly, in all material respects, the utility's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. The following definitions apply when used in this report:

Scanned - The documents or accounts were read quickly looking for obvious errors.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Reviewed - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Examined - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

RATE BASE: Examined plant and accumulated depreciation, from September 30, 1988 to January 31, 1999. Tested the plant account balances by tracing additions from the general ledger to invoices for relationship to the sewer plant and to determine the proper account classification. Obtained the deed to the land. Recalculated accumulated depreciation using proper rates. Reconciled beginning balances to the last order. Toured the plant facility.

Examined contributions in aid of construction (CIAC) by reconciling plant in the tax returns, reviewing cash disbursements and reconciling to the prior order. Recalculated accumulated amortization of CIAC.

Read the sales agreement.

II. AUDIT DISCLOSURES

AUDIT DISCLOSURE NO. 1

SUBJECT: ACCUMULATED DEPRECIATION

STATEMENT OF FACT: Commission order 22094 used rule 25-30.140 to determine depreciation. The Commission calculation arrived at a 4.58% composite rate which was used to amortize CIAC. The company has used the 4.58% composite rate for both depreciation and amortization since the last case in September of 1988.

The company has classified its additions into major categories such as buildings and structures, treatment and disposal equipment and pumping equipment. Since the last audit, the company has added an outfall sewer line that cost \$71,879 and was transferred into treatment and disposal equipment in 1998. The company has also rebuilt several services. In 1990 and early 1991, many invoices were found to Sewer Viewer, Mustang Construction, LCD trucking and S. Walsh landscaping for the services. The invoices total \$99,738.51 and were charged to pumping equipment.

OPINION: The Commission does not always adjust accumulated depreciation when the audit does not relate to a rate proceeding. No adjustment has been made to the attached rate base schedule, however, accumulated depreciation was recomputed after adjusting the plant balances for the two misclassifications. The rates in rule 25-30.140 were used. Staff continued to use the small utility composite rate for pumping and treatment and disposal equipment as done in the last case because more detailed information could not be found. The company should now be using the class A/B rates. These rates were used for plant that could be specifically identified. The attached schedule provides the detailed analysis. Using the rule, the company's accumulated depreciation is overstated by \$111,911.89 and accumulated amortization of CIAC is overstated by \$15,625.96.

If these adjustments were posted, rate base would be \$1,300,968.77.

COMPANY: SOUTH SEAS UTILITY CO.
 TITLE: ANALYSIS OF DEPRECIATION
 TEST PERIOD: JANUARY 31, 1999
 AUDITOR: KATHY WELCH
 DATE: APRIL 5, 1999

	BUILDING AND STRUCTURES	TREATMENT AND DISPOSAL	MISC PLANT EQUIPMENT	COLLECTING SEWER	PUMP EQUIP	MISC.	OUTFALL LINE	SERVICES	TOTAL	
9/88	80,679.23	233,658.21	36,672.15	8,902.43	266,822.47	40,226.48			666,960.97	
12/88	96,339.00	227,686.00	36,671.00	24,326.00	294,966.00		879.00		680,867.00	
1989	338,339.00	931,372.00	36,671.00	24,326.00	390,966.00		71,879.00		1,793,553.00	
1990	338,339.00	932,318.00	36,671.00	24,326.00	355,495.49		71,879.00	99,738.51	1,858,767.00	
1991	338,339.00	957,448.00	36,671.00	26,253.00	423,973.49		71,879.00	99,738.51	1,954,302.00	
1992	338,339.00	991,874.00	36,671.00	31,760.00	428,334.49		71,879.00	99,738.51	1,998,596.00	
1993	338,339.00	996,313.74	37,778.27	31,759.91	437,981.68		71,879.00	99,738.51	2,015,790.11	
1994	338,339.00	996,313.74	70,909.48	31,759.91	465,793.00		71,879.00	99,738.51	2,078,432.64	
1995	338,339.00	1,016,506.70	79,049.54	31,759.91	479,117.65		71,879.00	99,738.51	2,116,392.31	
1996	350,359.00	1,024,073.89	79,049.54	31,759.91	489,292.31		71,879.00	99,738.51	2,148,152.16	
1997	350,359.00	1,033,346.22	79,049.54	31,759.91	497,792.31		71,879.00	99,738.51	2,163,924.49	
1998	350,359.00	1,033,346.22	80,051.49	31,759.91	752,521.57		71,879.00	99,738.51	2,419,655.70	
1/1999	350,359.00	1,033,346.22	80,051.49	31,759.91	752,521.57		71,879.00	99,738.51	2,419,655.70	
LIVES	32.00	18.00	18.00	45.00	18.00	18.00	30.00	38.00		
10-12/88	691.48	3,203.78	509.33	92.30	3,901.31	279.35	3.66	0.00	8,681.21	1.28%
1989	6,791.84	32,198.06	2,037.28	540.58	19,053.67	0.00	1,212.63	0.00	61,832.05	3.45%
1990	10,573.09	51,769.17	2,037.28	540.58	20,735.04	0.00	2,395.97	1,312.35	89,363.47	4.81%
1991	10,573.09	52,483.50	2,037.28	561.99	21,651.92	0.00	2,395.97	2,624.70	92,338.44	4.72%
1992	10,573.09	54,147.83	2,037.28	644.59	23,675.22	0.00	2,395.97	2,624.70	98,086.68	4.81%
1993	10,573.09	55,282.99	2,068.04	705.78	24,064.34	0.00	2,395.97	2,624.70	97,714.90	4.85%
1994	10,573.09	55,481.87	3,010.77	705.78	25,104.85	0.00	2,395.97	2,624.70	99,877.03	4.81%
1995	10,573.09	55,987.29	4,157.20	705.78	26,247.52	0.00	2,395.97	2,624.70	102,671.54	4.85%
1996	10,760.91	56,682.85	4,391.64	705.78	26,900.28	0.00	2,395.97	2,624.70	104,462.11	4.87%
1997	10,948.72	57,150.56	4,391.64	705.78	27,419.02	0.00	2,395.97	2,624.70	105,636.38	4.88%
1998	10,948.72	57,406.12	4,419.47	705.78	34,730.94	0.00	2,395.97	2,624.70	113,233.70	4.68%
1/1999	912.39	4,784.01	370.61	58.81	3,483.90	0.00	199.66	2,624.70	12,434.06	0.51%
USING RULE	104,492.62	536,548.03	31,467.80	6,673.50	256,967.99	279.35	22,979.66	1,312.35	960,721.32	
PER COMPANY									1,072,633.21	
COMPANY OVERSTATED									(111,911.89)	

CALCULATED USING BEGINNING BALANCE TIMES THE RATE AND THE DIFFERENCE
 BETWEEN THE ENDING AND BEGINNING BALANCE TIMES THE RATE DIVIDED BY 2

CIAC AMORTIZATION:

	CIAC	AVERAGE RATE	AMORTIZATION
9/88	270,000.00		
12/88	270,000.00	1.28%	3,442.56
1989	373,355.00	3.45%	11,089.71
1990	380,855.00	4.81%	18,129.98
1991	382,355.00	4.72%	18,030.38
1992	391,355.00	4.81%	18,601.19
1993	403,355.00	4.85%	19,261.68
1994	404,855.00	4.81%	19,437.57
1995	404,855.00	4.85%	19,640.54
1996	406,355.00	4.87%	19,742.48
1997	407,855.00	4.88%	19,873.66
1998	406,355.00	4.68%	19,051.47
1/1999	406,355.00	0.51%	2,088.17
TOTAL			188,389.39
PER COMPANY			204,015.35
DIFFERENCE			<u>(15,625.96)</u>

CALCULATED USING BEGINNING BALANCE TIMES THE RATE AND THE DIFFERENCE BETWEEN THE ENDING AND BEGINNING BALANCE TIMES THE RATE DIVIDED BY 2

III. EXHIBITS

COMPANY: SOUTH SEAS UTILITY CO.
TITLE: RATE BASE
TEST PERIOD: JANUARY 1999
AUDITOR: KATHY WELCH
DATE: MARCH 28, 1999

	PER BOOKS	ADJUSTMENTS	ADJUSTED
LAND	60,000.00		60,000.00
PLANT	2,419,655.70		2,419,655.70
ACC. DEP.	(1,072,633.21)		(1,072,633.21)
CIAC	(406,355.00)		(406,355.00)
ACC. AMORT.	204,015.35		204,015.35
RATE BASE	<u>1,204,682.84</u>		<u>1,204,682.84</u>
SALES PRICE			1,250,000.00
ACQUISITION ADJUSTMENT			(45,317.16)

NOTE: COMPANY HAS NOT REQUESTED INCLUSION IN RATE BASE