

State of Florida



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: May 26, 2000
TO: Division of Water and Wastewater (Kyle)
FROM: Division of Auditing and Financial Analysis (Vandiver) *W*
RE: 991437-WU; Wedgefield Utilities, Inc.
 Audit Report; Rate Case
 Audit Control No. 00-087-3-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, they should send it to the Division of Records and Reporting. There confidential work papers associated with this audit.

DNV/sp

Attachment

cc: Division of Auditing and Financial Analysis (Devlin/Causseaux/Harvey/File Folder)
Orlando District Office (Winston)
 Division of Records and Reporting
Division of Legal Services

Donald Rasmussen
Wedgefield Utilities, Inc.
200 Weathersfield Avenue, Inc.
Altamonte Springs, FL 32714-4099

Ben Girtman, Esq.
1020 East Lafayette Street, #207
Tallahassee, Florida 32301-4552

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FPSC-RECORDS/REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES***

Orlando District Office

**WEDGEFIELD UTILITIES, INCORPORATED
FILE AND SUSPEND RATE CASE PROCEEDING
HISTORICAL PERIOD ENDED JUNE 30, 1999**

**DOCKET NO. 991437-WU
AUDIT CONTROL NO. 00-087-3-1**

Jeffery A. Small, Audit Manager

Misty B. Shepherd, Audit Staff

Charleston J. Winston, Audit Staff, District Audit Supervisor

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**DIVISION OF REGULATORY OVERSIGHT
AUDITOR'S REPORT**

MAY 25, 2000

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedules for Rate Base, Net Operating Income, and Capital Structure for the twelve-month period ended June 30, 1999, for Wedgefield Utilities, Inc. These schedules were prepared by the utility as part of its petition for rate relief in Docket No. 991473-WU.

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.

SUMMARY OF SIGNIFICANT FINDINGS

The utility's books and records are not in compliance with the NARUC Uniform System of Accounts.

The utility's utility-plant-in-service (UPIS) is overstated by \$1,147 because it did not properly record the transfer balances established in Order No. PSC-96-1241-FOF-WS, issued October 7, 1996, for its water system.

The utility's UPIS and accumulated depreciation accounts are overstated by \$64,096 because it include assets from the transfer balance that should be retired because they are no longer in service.

The utility's UPIS is overstated by \$16,040 because it includes additions that should have been recorded as miscellaneous deferred assets.

The utility's UPIS is overstated by \$22,596 because it includes three additions, two of which should have been recorded as non-utility expense and split between water and wastewater operations. A third addition should be removed because the utility could not provide supporting documentation.

The utility's pro forma adjustment is overstated by \$9,879 because it does not include a retirement amount for the asset being replaced.

The utility's land balance is overstated by \$19,457 because it includes an addition to land that was purchased primarily for future plant expansion.

The utility's contributions-in-aid-of-construction (CIAC) and amortization of CIAC are understated by \$1,500 and \$20,931, respectively, because it recorded two water service availability fees as wastewater, and it did not record any amortization of CIAC in 1996.

The utility's operations and maintenance (O&M) expenses are overstated by \$604 for insurance premiums and utility shareholders' fees that are non-utility expenses.

The utility's depreciation expense is overstated by \$4,000 because of the combined effects of Audit Exceptions Nos. 2 through 5 of this report.

The utility's taxes other than income (TOTI) is overstated by \$3,753 because it allocated real estate and personal property taxes between water and wastewater systems that can be directly assigned to each individual system.

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 utility. Our more important audit procedures are summarized below. 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.

Verified - The items were tested for accuracy, and substantiating documentation was examined.

RATE BASE: Examined account balances for utility-plant-in-service, contributions-in-aid-of-construction, accumulated depreciation and accumulated amortization of CIAC from December 31, 1995. Reconciled rate base balances authorized in Commission Order No. PSC-96-1241-FOF-WS, issued October 7, 1996, to the June 30, 1998 general ledger balances. Tested UPIS and accumulated depreciation additions. Examined supporting documentation for CIAC additions and agreed to FPSC-approved tariff amounts. Compiled working capital amounts. Tested additions to accumulated depreciation and accumulated amortization of CIAC for proper rates and calculations.

NET OPERATING INCOME: Compiled utility revenue and operating and maintenance accounts for the twelve-month period ended June 30, 1999. Chose a judgmental sample of customer bills and recalculated using FPSC-approved rates. Chose a judgmental sample of operation and maintenance expenses and examined the invoices and other supporting documentation. Tested the calculation of depreciation expense. Examined support for taxes other than income and income taxes.

CAPITAL STRUCTURE: Compiled components of the capital structure for the twelve-month period ended June 30, 1999. Agreed interest expense to the terms of debt instruments.

OTHER: Audited the utility's 1998 and 1999 Regulatory Assessment Fee returns filed with the Commission.

Audit Exception No. 1

Subject: Utility Books and Records

Statement of Facts: Rule 25-30.115 (1), Florida Administrative Code (F.A.C.), requires all water and wastewater utilities to maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts (USOA).

Rule 25-30.450, F.A.C., states,

In each instance, the utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the utility. The work sheets, etc., supporting the schedules and data submitted must be organized in a systematic and rational manner so as to enable Commission staff to verify the schedules in an expedient manner and minimum amount of time. The supporting work sheets, etc., shall list all reference sources necessary to enable Commission staff to track to original source of entry into the financial and accounting system and, in addition, verify amounts to the appropriate schedules.

Utilities, Inc. and its Florida subsidiaries have been cited in prior Orders Nos. PSC-95-0574-FOF-WS, issued May, 9, 1995, PSC-97-0531-FOF-WU, issued May, 9, 1997, PSC-96-0910-FOF-WS, issued July 15, 1996, and PSC-98-0524-FOF-SU, issued April 16, 1998, for failure to comply with one or both of the above-mentioned rules.

The utility renumbered several accounts in its accounting system during 1998. An Arthur Anderson internal memorandum discussing the utility's conversion to the USOA dated December 9, 1998, states,

Per . . . Director of Accounting, for Utilities, Inc. (the Company), the conversion has been transparent to the financial statements. Conversion merely changed the account numbers within the general ledger (G/L). It did not change any balances in an individual G/L account. Therefore, all mapping from the old account to the new account was one to one (i.e., no rolling up of multiple old system accounts into the new system G/L account, nor any breaking down from one old account into multiple new accounts.)

Recommendation: The utility's books and records are not in substantial compliance with the rules cited above. The utility's use of USOA account numbers in itself does not constitute substantial compliance with the NARUC USOA. Many of the problems that the audit staff encounters with the utility's accounting system are not caused by the "account number" in its accounting system.

The problems that the audit staff encounters are caused by a complex utility accounting system that must be converted to the NARUC-required format for each rate proceeding that the utility brings before the Commission. Two examples of problems that the audit staff encountered for this engagement are illustrated on the following page.

Audit Exception No. 1, continued

- 1) Audit staff had to request the utility to reconcile Accounts Nos. 620, 635, 641, and 675 of its filing because staff was unable to tie the account balances to the utility's general ledger. The utility's response included 62 separate sub-account balances that were used to compile the balances in the respective accounts.

- 2) Utility Account No. 675 now consists of 90 separate sub-accounts which encompass water and wastewater accounts. A sample of the account titles for some of the accounts included in Account No. 675 that should be recorded in other NARUC accounts, based on the respective account titles, are illustrated below.

6755070	Water Permits	6753011	Sewer Rodding
6759503	Water-Maintenance Supplies	6759080	Maint.-Deferred Charges
6759507	Water- Main Breaks	6759320	Contributions
6759509	Water-Electric Equipment Repair	6759405	Communication Expenses
6753008	Sludge Hauling	6759430	Sales/Use Tax Expense

The Commission should require the utility to maintain its books and records per the rules cited above.

Audit Exception No. 2

Subject: UPIS - Adjustments to Prior Order

Statement of Fact: Wedgefield Utilities, Inc.'s records indicate that it recorded \$2,617,366 and (\$727,428) to UPIS and accumulated depreciation, respectively, in 1996 to record the acquisition of Econ Utilities Corporation.

Prior Commission Order No. PSC-96-1241-FOF-WS, issued October 7, 1996, established transfer balances of \$2,615,949 and (\$727,428) for UPIS and accumulated depreciation, respectively, as of December 31, 1995.

Recommendation: Audit staff has determined from the prior audit work papers that the utility did not properly record the acquisition amounts for UPIS and accumulated depreciation. The Commission should require the utility to make the following adjustments to correct its books to the transfer balance established in the above-mentioned Order.

- 1) The utility overstated the transfer balance for UPIS by \$1,417 and recorded the balances in the wrong UPIS sub-accounts. The utility should be required to reduce Account 301 by \$1,417 and adjust its sub-account balances to properly reflect its UPIS per the transfer Order cited above.

See Schedule A on the following page for details.

- 2) The utility's accumulated depreciation balance is overstated by \$10,855 for the period ended June 30, 1998. The utility correctly recorded the total transfer balance for accumulated depreciation. However, the balance was not distributed properly to the correct sub-accounts. Additionally, the error in UPIS sub-account balances discussed above caused all additions to accumulated depreciation to be incorrect because of the depreciation rates applied against incorrect UPIS account balances. The utility should be required to adjust its sub-account balances to the audit staff-determined amounts to properly state its accumulated depreciation per the Order cited above and to correct the misclassification errors discussed above. Audit staff's adjustments to the prior Order for accumulated depreciation are made at period ended June 30, 1998. This removes the above errors from twelve-month period ended June 30, 1999 average calculations for this rate proceeding.

See Schedule B on the following page for details.

Schedule A for Audit Exception No. 2
UPIS Account Reclassifications

Acc#	Account Description	Recorded Utility Transfer Balance	Audit Adjustments	Audit Transfer Balance per Order
301	Organization	\$1,417	(\$1,417)	\$0
304	Structures & Improvements	827,969	0	827,969
307	Wells & Springs	149,751	0	149,751
309	Supply Mains	0	11,790	11,790
310	Power Generation Equipment	0	102,750	102,750
311	Pumping Equipment	110,830	(102,751)	8,079
320	Water Treatment Equipment	181,539	0	181,539
331	Transmission/Mains	981,141	(11,789)	969,352
333	Services	96,777	0	96,777
334	Meters & Meter Installations	151,886	0	151,886
335	Hydrants	61,054	1	61,055
339	Other Plant	0	23,155	23,155
340	Office Furniture	7,822	0	7,822
341	Transportation Equipment	14,983	0	14,983
342	Stores Equipment	0	1,749	1,749
343	Tools, Shop & Equipment	30,131	(28,390)	1,741
344	Laboratory Equipment	1,064	0	1,064
345	Power Operated Equipment	0	1,198	1,198
346	Communication Equipment	1,002	0	1,002
347	Miscellaneous Equipment	0	<u>2,288</u>	<u>2,288</u>
	Totals	\$2,617,366	(\$1,417)	\$2,615,950

(Small differences are due to rounding errors.)

Schedule B for Audit Exception No. 2
Accumulated Depreciation Account Reclassifications

Acc#	Account Descriptions	Per Utility @ 06/30/98	Audit Adjustments	Per Audit @06/30/98
301	Organization	\$88	(\$88)	\$0
304	Structures & Improvements	292,145	(64,171)	227,974
307	Wells & Springs	53,940	3,025	56,965
309	Supply Mains	0	7,485	7,485
310	Power Generation Equipment	0	68,288	68,288
311	Pumping Equipment	46,025	(42,906)	3,119
320	Water Treatment Equipment	71,911	5,627	77,538
330	Distribution Reservoirs & Standpipes	1,238	(1,238)	0
331	Transmission/Mains	328,888	5,607	334,495
333	Services	33,815	4,546	38,361
334	Meters & Meter Installations	61,483	(738)	60,745
335	Hydrants	20,298	(2,812)	17,486
339	Other Plant	0	10,354	10,354
340	Office Furniture	3,636	2,782	6,418
341	Transportation Equipment	11,053	3,930	14,983
342	Stores Equipment	0	810	810
343	Tools, Shop & Equipment	14,179	(12,778)	1,401
344	Laboratory Equipment	473	209	682
345	Power Operated Equipment	0	452	452
346	Communication Equipment	1,102	(139)	963
347	Miscellaneous Equipment	<u>0</u>	<u>901</u>	<u>901</u>
	Totals	\$940,273	(\$10,855)	\$929,418

(Small differences are due to rounding errors.)

Audit Exception No. 3

Subject: UPIS - Retirements

Statement of Facts: Prior Order No. PSC-96-1241-FOF-WS, established a transfer UPIS balance of \$2,615,949 at December 31, 1995. The following balances for the indicated accounts are included in this total.

Acct. 304	Structures & Improvements	\$827,969
Acct. 307	Wells & Springs	\$149,751
Acct. 310	Power Generation Equipment	\$102,750

NARUC, Accounting Instruction 27 B. (2) requires an equal charge to accumulated depreciation when its corresponding UPIS asset is retired.

Recommendation: The balances for Accounts 304, 307, and 310 include \$24,925, \$34,117, and \$5,045, respectively, for pressure tanks, wells, and pumps identified in the Original Cost Study used to establish rate base in FPSC Docket No. 840368-WS. Audit staff conducted a tour of water plant facilities on March 29, 2000, and none of the assets identified above were still in service.

The Commission should require the utility to reduce Accounts 304, 307, and 310 by \$24,925, \$34,117 and \$5,045, respectively, to retire the above-mentioned assets that are no longer in service. A corresponding entry to accumulated depreciation is also required per the rule cited above.

The above audit staff adjustment also requires a corresponding adjustment to remove the effects of depreciation expense on the above balances included in the twelve-month period ended June 30, 1999. This adjustment is reflected in Audit Exception No. 10 of this report.

Audit Exception No. 4

Subject: UPIS - Reclassified Plant Additions

Statement of Fact: Wedgefield Utilities, Inc.'s records indicate additions to the following UPIS accounts for the indicated amounts.

Acct.	Description	Amount
301	Organization Cost	\$2,500
302	Franchise Cost	1,080
311	Pumping Equipment	4,947
330	Distribution Reservoirs	1,879
331	Transmission Mains	1,400
335	Hydrants	505
343	Tools, Shop & Equipment	<u>3,729</u>
Total Additions		\$16,040

Per Rule 25-30.433 (8), F.A.C., non-recurring expenses shall be amortized over a five-year period unless a shorter time can be justified.

Recommendation: The utility's UPIS balances at June 30, 1999, are overstated by \$16,040 because of the following auditor-determined errors.

- 1) The additions to Account 301 were the FPSC filing fees for the transfer of utility assets in Docket No. 960235-WS and should be amortized over four years. This adjustment requires an increase of \$625 ($\$2,500/4$) to Account No. 666 for the twelve-month period ended 06/30/99.
- 2) The additions to Accounts 311, 335, and 343 were the costs incurred for major repairs to UPIS and should be amortized over five years per the rule cited above. This adjustment requires an increase of \$1,836 ($\$9,181/5$) to Account No. 635 for the twelve-month period ended 06/30/99.
- 3) The additions to Accounts 302, 330, and 331 were the costs incurred for professional fees related to current and future plant additions and should be amortized over five years per the rule cited above. This adjustment requires an increase of \$872 ($\$4,359/5$) to Account No. 635 for the twelve-month period ended 06/30/99.

Audit Exception No. 4, continued

The Commission should require the utility to remove the \$16,040 of UPIS additions from the respective accounts per the audit adjustments discussed above.

The above audit staff's adjustments also require a corresponding adjustment to remove the effects of depreciation expense on the above balances included in the twelve-month period ended June 30, 1999. This adjustment is reflected in Audit Exception No. 10 of this report.

Additionally, the audit adjustments to UPIS for \$16,040 will require a corresponding reduction in accumulated depreciation of \$1,660 to remove all previous depreciation charges booked against the reclassified asset balances.

Acct.	Description	Amount
301	Organization Cost	\$219
311	Pumping Equipment	583
330	Distribution Reservoirs	51
331	Transmission Mains	49
335	Hydrants	28
343	Tools, Shop & Equipment	<u>730</u>
Total Additions		\$1660

Audit Exception No. 5

Subject: UPIS - Misclassified Plant Additions

Statement of Fact: Wedgefield Utilities, Inc.'s filing indicates balances of \$22,259, \$126,005, and \$43,300, in Accounts 301, Organization Costs, 311, Pumping Equipment, and 343, Tools, Shop & Garage, respectively, at the twelve-month period ended June 30, 1999.

Prior Order No. 25812 issued February 27, 1992, classified all costs associated with the transfer of utility assets as plant acquisition adjustment costs.

NARUC Accounting Instruction 2 A. states "Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any item included in any account."

Recommendation: The balance of \$22,259 in Account 301 indicated above is composed of \$18,342 in costs incurred for the transfer of utility assets from Econ Utilities Corporation to Wedgefield Utilities, Inc., \$2,500 in costs which is one-half of the FPSC transfer fees of \$5,000, and \$1,417 of acquisition costs booked by Wedgefield Utilities at the time of transfer. The latter two amounts are discussed in Audit Exceptions Nos. 2 and 4 of this report.

A \$1,737 addition recorded in 1996 that is not supported by any utility documentation is included in the \$126,005 amount recorded in Account 311.

The balance of \$43,300 in Account 343 indicated above includes additions for invoices totaling \$5,034 for maintenance equipment that should have been split equally between water and wastewater systems. The utility recorded the full amount in its water system books.

Per the rules and Order cited above, the Commission should require the utility to make the following adjustments:

- 1) Reduce Account 301 by \$18,342 to remove the transfer costs that are non-utility expenses.
- 2) Reduce Account 311 by \$1,737 to remove the unsupported addition.
- 3) Reduce Account 343 by \$2,517 to remove one-half of the cost for maintenance equipment that should have been booked to Wedgefield's wastewater system.

The above audit staff's adjustments also require a corresponding adjustment to remove the effects of depreciation expense on the above balances included in the twelve-month period ended June 30, 1999. This adjustment is reflected in Audit Exception No. 10 of this report.

Additionally, the above audit adjustments will require a corresponding reduction in accumulated depreciation to Accounts 301, 311 and 343 by \$1,064, \$261, and \$609, respectively.

Audit Exception No. 6

Subject: UPIS - Pro Forma Additions

Statement of Fact: Wedgefield Utilities, Inc.'s filing includes \$13,172 and \$599 of UPIS and accumulated depreciation as pro forma additions for the period ended June 30, 1999. The \$599 also is the utility adjustment to depreciation expense in the filing.

Recommendation: The pro forma addition above is for a new diesel fuel storage tank for the water plant's emergency generator.

The utility did not record a retirement amount for the underground diesel fuel storage tank that was replaced. Prior utility policy is to record 75 percent of the new asset's purchase price as a retirement when original cost cannot be determined.

The Commission should require the utility to record a retirement of \$9,879 to remove the old diesel fuel tank ($\$13,172 \times 75\%$).

Additionally, the utility should reduce its accumulated depreciation adjustment and corresponding depreciation expense adjustment by \$434 to reflect the above-mentioned retirement amount.

Audit Exception No. 7

Subject: Land

Statement of Fact: NARUC, Class B, Balance Sheet, Account 103 A., Property Held for Future Use, states "This account shall include the original cost of property owned and held for future use in utility service under a definite plan for such use."

Wedgfield Utilities, Inc.'s filing indicates an adjusted balance of \$21,692 for Land and Land Rights. The filing includes a pro forma adjustment of \$17,264 for Land and Land Rights for the purchase of a 40,301-square foot parcel of land from the Wedgfield Homeowners' Association after the twelve-month period ended June 30, 1999.

Recommendation: The adjusted land balance above includes a plant addition of \$2,421 for legal fees incurred on February 1, 1999. The invoice indicates that \$2,271 of this amount is for professional services related to pending litigation concerning the Ranger Drainage District located in Wedgfield's service territory. Current utility policy is to defer costs associated with this issue. The remaining invoice balance of \$150 was for professional fees related to the land purchased. The amount of \$2,271 should be reclassified to Account 186, Miscellaneous Deferred Debits.

During the plant tour, staff observed that an 8-inch well is the only utility structure located on the land purchased. The well is enclosed in a fenced compound encompassing approximately 169 square feet. Additionally, utility officials stated that the land was purchased for future water plant expansion. Audit staff determined the portion of land that houses the well occupies approximately 0.42 percent of the land purchased (169 sq ft / 40,301 sq ft). Based on these measurements, the remaining 99.58 percent of land should be recorded as property held for future use. Therefore, an amount of \$17,191 should be removed Account 301, Land and Land Rights and reclassified to Account 103, Property Held for Future Use (\$17,264 x 99.58%).

Land surveying cost of \$1,200 was recorded in Account 320, Water Treatment Equipment. The survey was related to the land purchase discussed above. Therefore, an amount of \$5 should be reclassified to Account 303, Land & Land Rights. (\$1,200 x 0.42%). The balance of \$1,195 should be recorded in Account 103, Property Held for Future Use.

The Commission should require the utility to reduce Account 303 by \$19,457 based on audit staff's adjustments determined above.

Account 301				Account 301
Per Utility	Remove	Remove Land	Add Land	Per Audit
@06/30/99	Legal Fees	for Future Use	Survey Cost	@06/30/99
\$21,692	(\$2,271)	(\$17,191)	\$5	\$2,235

Audit Exception No. 8

Subject: CIAC and Amortization of CIAC

Statement of Facts: Per the utility's authorized tariff, service availability charges are \$640 for system capacity charges and \$110 for meter installation, for a total of \$750 per water customer.

Wedgefield Utilities, Inc.'s filing indicates CIAC and amortization of CIAC balances of \$689,931 and \$173,364, respectively, at June 30, 1999.

The utility's general ledger indicates service availability fees of \$12,750 collected for 17 new customer connections for the period ended June 30, 1999.

The utility's Tap Fee Schedule indicates service availability fees of \$14,250 collected for 19 new customer connections for the period ended June 30, 1999.

Rule 25-30.140 (8)(a), F.A.C., requires the use of a composite plant amortization rate to amortize CIAC.

Recommendation: The utility's CIAC and amortization of CIAC balances are understated by \$1,500 and \$20,931, respectively, because of the following auditor-determined errors.

- 1) Utility officials stated, and audit staff has confirmed, that two service availability fees totaling \$1,500 were incorrectly recorded in Wedgefield Utilities, Inc.'s wastewater CIAC account.
- 2) Wedgefield Utilities, Inc.'s filing indicates, and utility records confirm, that the utility failed to record an addition for amortization of CIAC in 1996.
- 3) Amortization rates for CIAC should be based on the composite plant amortization rate per the rule cited above. Due to adjustments in UPIS in Audit Exceptions Nos. 2 through 6 of this report, audit staff has recalculated an amortization rate of 3.303 percent. The utility amortization of CIAC based on the above rate is \$21,224 for the twelve-month period ended June 30, 1999.

	<u>CIAC</u>	<u>Accumulated Amortization of CIAC</u>
Per Utility	\$689,931	\$173,364
Per Audit	<u>\$691,431</u>	<u>\$194,295</u>
Audit Adjustment	\$1,500	\$20,931

Audit Exception No. 9

Subject: Operations and Maintenance Expenses (O&M)

Statement of Facts: Wedgefield Utilities, Inc.'s filing indicates adjusted O&M expenses totaling \$161,512 for water services.

The utility's filing includes allocated O&M expenses of \$5,358 and \$19,500 from its parent, Utilities, Inc. of Northbrook, IL (UI), in Allocation Schedules SE 52 and SE 60, respectively.

Prior Order No. PSC-98-0524-FOF-SU removed Keyman/Life, Life, Director/Officer Liability, and Fiduciary Liability insurance premium expenses from O&M expenses.

Prior Order No. 11307, issued November 10, 1982, removed shareholder expenses from test year O&M expenses.

Recommendation: Audit staff's review of utility-supplied documentation indicates the following:

- 1) The \$5,358 allocation is for insurance expenses recorded in UI Account No. 6599090 based on \$574,928 of total insurance expense. Premiums of \$88,398 are included in these expenses for Keyman/Life, Life, Director/Officer Liability, and Fiduciary Liability insurance policies. The above-mentioned premium expenses should be removed from O&M per Order No. PSC-98-0524-FOF-SU cited above.
- 2) The \$19,500 allocation is for general and administrative (G&A) services based on \$2,909,765 of total G&A expense provided by the parent of which \$267,739 is recorded in MFR Account No. 635. Payments of \$35,000 are included in Account No. 635 for two special Board of Director (BOD) meetings where the agenda was limited to discussions concerning shareholder issues and an invoice of \$12,300 for consulting services related to additional shareholder services. The above-mentioned BOD fees and invoice should be removed from O&M per Order No. 11307 cited above.

The Commission should require the utility to reduce MFR Accounts Nos. 635 and 659 by \$187 and \$417, respectively, to remove the disallowed allocated shareholder fees and insurance premiums as discussed above.

See Schedule C on the following page for details.

Schedule C for Audit Exception No. 9

MFR Acc. No. 635	Total Utility G&A Expense	Total Wedgefield Percentage @ .784%	Wedgefield Water Percentage @ 50.57%
Per Utility	\$267,739	\$2,099	\$1,061
Per Audit	220,439	1,728	874
Audit Adjustment	(\$47,300)	(\$371)	(\$187)

MFR Acc. No. 659	Total Utility Insurance Premium	Total Wedgefield Percentage @ .932%	Wedgefield Water Percentage @ 50.57%
Per Utility	\$574,928	\$5,358	\$2,710
Per Audit	486,530	4,534	2,293
Audit Adjustment	(\$88,398)	(\$824)	(\$417)

(Small differences are due to rounding errors.)

Audit Exception No. 10

Subject: Depreciation Expense

Statement of Facts: Wedgefield Utilities, Inc.'s filing indicates adjusted depreciation expenses totaling \$93,212 for water services.

Recommendation: Audit staff's UPIS adjustments in Audit Exceptions Nos. 2 through 5 require adjustments to the utility-filed depreciation expense.

The Commission should require the utility to reduce its depreciation expense by \$4,000.

See Schedule D on the following page for details.

Schedule D for Audit Exception No. 10

Acc. No.	Account Description	Utility Dep. Exp	Note A	Note B	Note C	Audit Dep. Exp.
301	Organization	\$570	(\$534)	(\$36)		\$0
304	Structures & Improvements	26,199	(755)			25,444
307	Wells & Springs	5,032	(1,137)			3,895
309	Supply Mains	0		337		337
310	Power Generation Equipment	0		5,138	165	5,303
311	Pumping Equipment	6,289	(264)	(5,138)	(247)	640
320	Water Treatment Equipment	8,717				8,717
330	Distribution Reservoirs & Standpipes	31				31
331	Transmission/Mains	23,747		(275)	(33)	23,439
333	Services	3,121			(51)	3,070
334	Meters & Meter Installations	7,813				7,813
335	Hydrants	1,507	(11)		(11)	1,485
339	Other Plant	0		926		926
340	Office Furniture	1,473				1,473
341	Transportation Equipment	4,583				4,583
342	Stores Equipment	19		70		89
343	Tools, Shop & Equipment	3,053	(390)	(1,774)	(233)	656
344	Laboratory Equipment	207				207
345	Power Operated Equipment	0		100		100
346	Communication Equipment	425				425
347	Miscellaneous Equipment	<u>425</u>	<u>0</u>	<u>153</u>	<u>0</u>	<u>578</u>
	Totals	\$93,212	(\$3,091)	(\$499)	(\$410)	\$89,212

(Small differences are due to rounding errors.)

Auditor Notes:

- A) This adjustment removes the effects of depreciation expense associated with audit staff's adjustments in Audit Exceptions Nos. 3-5 of this report for UPIS adjustments before the twelve-month period ended 06/30/99.
- B) This adjustment removes the effects of twelve-month period ended 06/30/99 depreciation expense associated with audit staff's adjustments in Audit Exception No. 2 of this report.
- C) This adjustment removes the effects of twelve-month period ended 06/30/99 depreciation expense associated with audit staff's adjustments in Audit Exceptions Nos. 3-5 of this report for UPIS adjustments during the twelve-month period ended 06/30/99.

Audit Exception No. 11

Subject: Taxes Other Than Income (TOTI) and Income Taxes

Statement of Facts: Wedgefield Utilities, Inc.'s filing indicates Taxes Other Than Income totaling \$37,507 for water services as indicated below.

Regulatory Assessment Fees	\$11,413
Payroll Taxes	4,215
Real Estate & Personal Property Taxes	21,818
Other Taxes	<u>61</u>
Total TOTI	\$37,507

Prior Order No. 9599, issued October 17, 1980, reduced operating expense by an amount equal to the lost discount for early payment of property taxes.

Recommendation: The real estate and personal property tax amounts listed above include allocated portions that should be directly assigned to water and wastewater plant sites.

Additionally, the utility forgoes \$563 in early payment discounts associated with real estate and personal property tax bills.

The Commission should require the utility to reduce its TOTI by \$3,753 to reflect the water system's directly assignable property taxes and to remove an amount equal to the early payment discounts lost.

See Schedule E on the following page for details.

The associated adjustment to income taxes for this Exception and Exceptions Nos. 2 through 6, 9, and 10 is a reduction of \$851.

See Schedule F on the following page for details.

Schedule E for Audit Exception No. 11

Tax	Total	Water	W/Water	Property
Real Estate Tax Parcel ID# 112332000000005	\$10,195	\$0	\$10,195	Wastewater plant site
Real Estate Tax Parcel ID#012332759725191	375	375	0	Water plant site
Personal Property Tax Acc#UTL-000033	43,901	16,977	26,925	<u>Water and W/Water UPIS</u> Allocated based on water UPIS as a percentage of total UPIS in filing. (\$2,771,394 / \$7,167,323)
Other Property Taxes	1,057	407	650	Water 38.67% W/Water 61.33%
SE 60 Allocation	454	230	224	<u>Water and Wastewater</u> Allocated based on customers.
SE 90 Allocation	<u>152</u>	<u>77</u>	<u>75</u>	Water 50.57% W/Water 49.43%
Total Real Estate & Personal Property Taxes per Audit	56,135	18,065	38,069	
Total Real Estate & Personal Property Taxes per Utility	<u>56,698</u>	<u>21,818</u>	<u>34,880</u>	Water 38.48% W/Water 61.52%
Audit Adjustment	(\$563)	(\$3,753)	\$3,190	
Acc#UTL-000033	\$457			Adjustments to property tax amounts to remove amounts associated with lost early payment discounts
Parcel ID# 112332000000005	<u>106</u>			
Unexplained Difference	\$0			

(Small differences are due to rounding errors.)

Schedule F for Audit Exception No. 11

Line	Item	Amount	Amount
1	Revenues - Per Filing /Audit		\$404,098
2	O & M Expense - Per Audit	\$164,062	
3	Depreciation Expense - Per Audit	89,212	
4	CIAC Amortization Expense - Per Audit	(21,244)	
5	Taxes Other Than Income - Per Audit	<u>40,272</u>	272,302
6	Interest Expense		<u>49,626</u>
7	Taxable Income		82,170
8	Less State Income Tax Exemption \$5,000 split between W & S		<u>2,500</u>
9	State Taxable Income		79,670
10	State Income Tax @ 5.5%		4,382
11	Federal Taxable Income (Line 7 - Line 10)		77,788
12	Federal Income Tax Rate		<u>34%</u>
13	Federal Income Taxes		26,448
14	Current State Income Taxes - Line 10		<u>4,382</u>
15	Total Current Income Tax Expense		30,830
16			
17	Income Taxes per the filing		<u>31,681</u>
18			
19	Recommended adjustment to Income Taxes		<u>\$851</u>

Schedule of Water Rate Base

Florida Public Service Commission

Company: Wedgefield Utilities, Inc.
 Docket No.: 991437-WU
 Schedule Year Ended: 6/30/99
 Interim Final
 Historical Projected

Schedule A-1
 Page 1 of 1

Preparer: Erin L. Nicholas

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/8 O&M) is used to determine working capital, provide additional schedule showing detail calculation.

Line No.	(1) Description	(2) Balance Per Books YE 6/30/99	(3) Utility Adjustments	(4) Adjusted Utility Balance YE 6/30/99	(5) Year End 6/30/98	(6) Test Year Average 6/30/99	(9) Supporting Schedule(s)
1	Utility Plant in Service	\$ 2,815,727	[a] \$ 13,172	\$ 2,828,899	\$ 2,720,623	\$ 2,774,761	A-5
2	Utility Land & Land Rights	4,428	[b] 17,264	21,692	2,007	11,850	A-5
3	Less: Non-Used & Useful Plant		[c] (\$260,922)	(260,922)		(260,922)	A-7
4	Construction Work in Progress	15,209	[d] (15,209)	-	-	-	-
5	Less: Accumulated Depreciation	(903,227)	[e] (599)	(903,826)	(824,035)	(863,931)	A-9
6	Less: CIAC	(689,931)		(689,931)	(594,941)	(642,436)	A-12
7	Accumulated Amortization of CIAC	173,364		173,364	153,331	163,348	A-14
9	Allocated Plant	-	[f] 22,442	22,442	27,923	25,183	-
10	Working Capital Allowance	18,560	[g] 1,629	20,189	20,189	20,189	A-17
11	Total Rate Base	<u>\$ 1,434,131</u>	<u>\$ (222,223)</u>	<u>\$ 1,211,908</u>	<u>\$ 1,505,097</u>	<u>\$ 1,228,042</u>	

- Notes:**
- [a] Plant in Service is adjusted to include the cost to excavate and replace a diesel fuel storage tank. This amount was on the books in CWIP at 6/30/99, although the project was complete.
- [b] Land and Land Rights is adjusted to include the cost to acquire a parcel of land for the current water treatment plant. A portion of this amount (\$2,037) was on the books in CWIP at 6/30/99. The remaining was \$15,227 was spent after 6/30/99 and is included as a pro forma adjustment. The land acquisition project is complete.
- [c] An adjustment is made to reduce Plant in Service and its related Accumulated Depreciation, as well as CIAC and its related Accumulated Amortization, by the amount that is considered non-used/useful.
- [d] CWIP is reduced by the entire per books amount of \$15,209 because this amount is related to the two projects mentioned in above in notes [a] and [b], and it is shown that this full amount is adjusted to be properly reflected within Plant in Service and Land and Land Rights accounts.
- [e] Accumulated Depreciation is adjusted to reflect one full year of A/D on the diesel fuel tank discussed in Note [a].
- [f] Water Service Corporation allocates a portion of its total rate base to each operating subsidiary to which it provides service. Wedgefield is allocated .68% of the total net WSC rate base. Also included in this amount is allocated portion of the net plant associated with the Florida office and computers less their related portions of accumulated depreciation.
- [g] Working Capital is calculated by taking the Operations and Maintenance Expenses divided by 1/8.

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Wedgefield Utilities, Inc.
 Docket No.: 991437-WU
 Schedule Year Ended: 6/30/99
 Interim Final
 Historical Projected

Schedule B-1
 Page 1 of 1
 Preparer: Erin L. Nicholas

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Utility Test Year	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	Supporting Schedules
1	OPERATING REVENUES	259,209	51	259,260	144,838	404,098	B-3 & B-4
2	Operation & Maintenance	148,483	13,029	161,512		161,512	B-3 & B-5
3	Depreciation	93,212	(9,048)	84,164		84,164	B-3 & B-13
4	CIAC Amortization	(20,033)	371	(19,662)		(19,662)	B-3
5	PAA Amortization	(58,799)	58,799	0		0	
6	Taxes Other Than Income	37,251	256	37,507	6,518	44,025	B-3 & B-15
7	Provision for Income Taxes	6,558	(26,926)	(20,368)	52,049	31,681	B-3 & C-1
8	OPERATING EXPENSES	206,672	36,481	243,153	58,567	301,720	
9	NET OPERATING INCOME	52,537	(36,431)	16,107	86,271	102,378	
11	RATE BASE	1,434,131		1,211,908		1,228,042	
12	RATE OF RETURN	3.66%		1.33%		8.34%	

Note: Descriptions of the adjustments made above are detailed on page B-3.

Schedule of Requested Cost of Capital
Beginning and Year End Average

Florida Public Service Commission

Company: Wedgefield Utilities, Inc. (Parent Company Utilities, Inc.)
Docket No.: 991437-WU
Schedule Year Ended: 6/30/99
Interim [] Final [x]
Historical [x] Projected []

Schedule D-1
Page 1 of 1

Preparer: Erin L. Nicholas

Simple average capital structure.

Explanation: Provide a schedule which calculates the requested Cost of Capital on a beginning and end of year average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

Line No.	Class of Capital	(1) Reconciled To Requested Rate Base <u>AYE 6/30/99</u>	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	812,736	39.98%	8.32%	3.33%
2	Short-Term Debt	221,966	10.92%	6.55%	0.72%
3	Preferred Stock	0	0.00%		0.00%
4	Common Equity	862,441	42.41%	10.00%	4.24%
5	Customer Deposits	12,020	0.59%	8.00%	0.05%
6	Tax Credits - Zero Cost	0	0.00%		0.00%
7	Tax Credits - Wtd. Cost	0	0.00%		0.00%
8	Accum. Deferred Income Tax	124,256	6.10%	0.00%	0.00%
9	Other (Explain)	0	0.00%		0.00%
			0.00%		0.00%
10	Total	<u>2,033,419</u>	<u>100.00%</u>		<u>8.34%</u>

Supporting Schedules: D-2
Recap Schedules: A-1, A-2

Note: Leverage Formula: $8.14\% + 0.789/ER$