



# Public Service Commission

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RECORDS AND REPORTING

**DATE:** July 11, 2000  
**TO:** Division of Economic Regulation (Dewberry)  
**FROM:** Denise N. Vandiver; Division of Regulatory Oversight *DN*  
**RE:** Docket No. 000327-WS; Buffalo Bluff Utilities, Inc.  
Audit Report; Staff-assisted Rate Case  
Audit Control No. 00-132-3-1

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 are no confidential work papers associated with this audit.

DNV: sp

Attachment

cc: Division of Regulatory Oversight (Hoppe/Harvey/File Folder)  
Division of Economic Regulation (Fitch)  
Orlando District Office (Winston)  
✓ Division of Records and Reporting  
Division of Legal Services

Pierre D. Thompson  
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**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF REGULATORY OVERSIGHT  
BUREAU OF AUDITING SERVICES*

*Orlando District Office*

**BUFFALO BLUFF UTILITIES, INC.**

**STAFF-ASSISTED RATE CASE**

**HISTORICAL YEAR ENDED MAY 31, 2000**

**DOCKET NO. 000327-WS  
AUDIT CONTROL NO. 00-132-3-1**

  
\_\_\_\_\_  
*Misty B. Shepherd, Audit Manager*

  
\_\_\_\_\_  
*Charleston J. Winston, Audit Supervisor*

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

**June 30, 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 Net Operating Income and Capital Structure for the historical 12-month period ended May 31, 2000, for Buffalo Bluff Utilities, Inc. The attached schedules were prepared by the auditor as part of our work in Docket No. 000327-WS.

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 does not maintain its books and records as required by the Uniform System of Accounts and Commission rules.

Utility plant-in-service (UPIS) and accumulated depreciation balances for water and wastewater systems could not be established because of inadequate supporting documentation.

The value of utility owned land for rate base purposes is \$1,103 for the water plant site and \$9,838 for the wastewater plant site.

Contributions-in-aid-of-construction (CIAC) and accumulated amortization of CIAC balances for water and wastewater systems could not be established because of inadequate supporting documentation.

The utility's operations and maintenance expenses for water and wastewater operations are \$9,883.16 and \$7,748.59, respectively, for the 12-month period ended May 31, 2000. The utility's working capital balances for water and wastewater operations are \$1,235.40 and \$968.57, respectively, for the 12-month period ended May 31, 2000.

The utility's capital structure is \$84,260 of common equity for the period ended May 31, 2000, before ratemaking adjustments in this proceeding.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by examining 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. 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.

**Verified** - The items were tested for accuracy and compared to substantiating documentation.

**Assembled** - Presented in Commission-required format financial information that was provided to audit staff and is the representation of utility management.

**RATE BASE:** Scanned 1998 and 1999 Annual Reports for plant, accumulated depreciation, CIAC, and CIAC amortization. Identified and established the original cost for the land that is occupied by the water and wastewater systems.

**NET OPERATING INCOME:** Scanned and verified 100 percent of utility-provided documents used to assemble water and wastewater account balances for utility revenues, operations and maintenance expenses, and taxes other than income for the 12-month period ended May 31, 2000. Recomputed utility billing records to verify the existing rates charged by the utility.

**CAPITAL STRUCTURE:** Scanned and verified 100 percent of utility-provided documents used as components of its capital structure as of May 31, 2000.

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

**Audit Exception No. 1**

**Subject: Noncompliance with the NARUC Uniform System of Accounts**

**Statement of Facts:** Buffalo Bluff Utilities, Inc. provides water and wastewater services to 59 residential customers and one office, all within Sunraye River Estates, a mobile home community located in Putnam County.

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

NARUC, Class C, Accounting Instruction 2. A, states,

*"The books of accounts of all water and wastewater utilities shall be kept by the double entry method on an accrual basis."*

NARUC, Class C, Accounting Instruction 2. B, states,

*"All books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries."*

**Recommendation:** The utility does not maintain its books per the Commission rules cited above.

Utility records consist of one check register and one customer billing register which are used for all transactions involving Buffalo Bluff Utilities, Inc. The records are maintained on a cash basis for income tax purposes.

Buffalo Bluff Utilities, Inc.'s accounting system does not reconcile to the USOA because of multiple differences in accounting methods and treatments between income tax basis and the USOA basis of accounting for utility operations.

The utility was not able to provide sufficient historical records and supporting source documentation for audit staff to prepare schedules that identify specific additions to UPIS and its associated accumulated depreciation to water and wastewater operations for the 12-month period ending May 31, 2000.

The Commission should establish water and wastewater UPIS using an alternative method such as an Original Cost Study.

The Commission should require the utility to conform to the USOA and Commission rules cited above. The Commission staff should initiate an investigation of the utility's books and records to assess the utility's compliance with the Commission's final Order from this rate proceeding.

**Audit Exception No. 2**

**Subject: Utility Land and Land Rights**

**Statement of Facts:** Per NARUC USOA Water and Wastewater Utilities, Definition No. 9,

*“Original Cost, as applied to utility plant, means the cost of such property to the person first devoting it to public service.”*

On January 17, 1984, H. L. Blackmon sold a parcel of property to Bayou Club North, Inc. for a calculated purchase price of \$150,000. (Documentary stamps of \$675 divided by a tax rate \$0.45 per \$100 of sales price.) The parcel of land contained 34 acres, which established a per acre price of \$4,412.

Bayou Club North, Inc. began selling residential lots within this parcel of property, named Bayou Club Subdivision and later renamed Sunraye River Estates. Buffalo Bluff Utilities, Inc. was formed on August 9, 1984, to serve the water and wastewater needs of these residents. On December 16, 1991, Bayou Club North, Inc. deeded .25 acres for the water plant site and 2.23 acres for the wastewater plant site to Buffalo Bluff Utilities, Inc. in a related party transaction.

**Recommendation:** Audit staff used the date of January 17, 1984, as the date that the property was devoted to public service as required by the USOA referenced above. Land value for rate base purposes is calculated as indicated below.

Water plant site	:	Area of 0.25 acres x \$4,412 per acre	=	\$1,103
Wastewater plant site	:	Area of 2.23 acres x \$4,412 per acre	=	\$ 9,838

### **Audit Exception No. 3**

**Subject: Contributions-In-Aid-of-Construction (CIAC) and Associated Accumulated Amortization of CIAC**

**Statement of Facts:** In 1992, the owners of Buffalo Bluff Utilities, Inc. were granted Water Certificate No. 542-W and Wastewater Certificate No. 470-S to operate the existing water and wastewater system at Bayou Club in Order No. PSC-92-0330-FOF-WS, issued May 11, 1992.

In the above Order, the Commission established residential connection fees of \$400 per unit for water and \$400 per unit for wastewater. The Order required that connection fees be considered as *contributed assets for the purpose of any future rate base calculations.*

**Recommendation:** The utility's CIAC and associated accumulated amortization of CIAC as of May 31, 2000, are not properly recorded per the USOA and the Commission rules cited previously in this report.

Buffalo Bluff Utilities, Inc. began providing water and wastewater services in 1984, and since then it has established 60 connections. The utility was unable to provide any documentation to show it had been collecting the \$400 connection fee for water or the \$400 connection fee for wastewater. The utility reported a \$0 balance for CIAC and amortization of CIAC in its 1999 Annual Report.

Audit staff could not establish water and wastewater CIAC or amortization of CIAC because of inadequate utility records. Five new customers have been added since the issue of the above-mentioned Order. Audit staff calculated \$2,000 (5 x \$400) CIAC addition for water and \$2,000 CIAC addition to wastewater to account for these five new customers.

The Commission should establish water and wastewater CIAC and amortization of CIAC for the utility using an alternative method such as an Original Cost Study.

**Audit Exception No. 4**

**Subject: Revenues**

**Statement of Facts:** Buffalo Bluff Utilities, Inc., reported revenues of \$8,017 and \$8,240 for water and wastewater operations, respectively, in its 1999 Annual Report. The utility does not record revenues on a monthly basis as required by NARUC. See Audit Exception No. 1 of this report.

The utility's tariff currently authorizes rates of \$7.41 base facility charge and \$1.85 per 1,000 gallons over 3,000 per month for water and \$12.27 per month for wastewater services.

**Recommendation:** The utility provided audit staff with access to its billing registers and other utility records to recalculate its revenues for the 12-month period ended May 31, 2000.

Audit staff has calculated utility revenues of \$8,300 and \$8,725 for its water and wastewater operations for the 12-month period ended May 31, 2000.

**Audit Exception No. 5**

**Subject:        Operating and Maintenance Expenses and Taxes Other Than Income**

**Statement of Facts:** Buffalo Bluff Utilities, Inc.'s records do not completely separate or specifically identify its operations and maintenance (O&M) expenses. Additionally, there is no distinction between its water and wastewater operations.

The utility is required to pay annual tax assessments to Putnam County and the State of Florida. The utility reported Taxes Other Than Income (TOTI) of \$1,086 and \$1,096 for water and wastewater, respectively, in its 1999 Annual Report. TOTI is not recorded on an accrual basis.

**Recommendation:** The utility's O&M expenses and TOTI for the 12-month period ended May 31, 2000, are not properly recorded per the USOA and the Commission rules cited previously in this report.

The utility provided the audit staff with access to all invoices, canceled checks, and other utility records to assemble its operations and maintenance expenses and TOTI for the 12-month period ended May 31, 2000.

The utility has no employees. All services are on a contractual basis. The utility's plant operator incurs the majority of the utility's expenses and includes them on his monthly invoice.

Audit staff has calculated utility O&M expenses of \$9,883.16 and \$7,748.60, respectively, for water and wastewater operations for the 12-month period ended May 31, 2000.

Audit staff has calculated TOTI of \$1,067 and \$966 respectively, for water and wastewater operations for the 12-month period ended May 31, 2000.

Additionally, per Rule 25-30.433 (4), F.A.C., the utility's working capital allowance for rate base purposes was calculated as one-eighth of the above O&M expenses which amounts to \$1,235.40 and \$968.57, respectively, for water and wastewater operations.

See schedule on the following page for details and subaccount balances.

**Schedule for  
Audit Exception No. 5**

**Operation and Maintenance Expenses  
12-Month Period Ended 05/31/00**

<u>Acc No.</u>	<u>Account Description</u>	<u>Total Water Expense</u>	<u>Total W/Water Expense</u>
601/701	Salaries & Wages - Employees	\$0.00	\$0.00
711	Sludge Hauling	-NA-	157.50
615/715	Purchased Power	631.99	1,161.19
618/718	Chemicals	315.00	315.00
620/720	Materials & Supplies	0.00	0.00
630/730	Contractual Services - Billing	694.24	694.24
631/731	Contractual Services - Professional	1,425.00	1,300.00
635/735	Contractual Services - Testing	3,596.25	3,024.00
636/736	Contractual Services - Other	2,825.95	287.50
640/740	Rents	0.00	0.00
650/750	Transportation Expense	0.00	0.00
655/755	Insurance Expense	123.23	543.66
665/765	Regulatory Commission Expense	125.00	125.00
675/775	Miscellaneous Expense	<u>146.50</u>	<u>140.50</u>
	<b>Total Expenses</b>	<b>\$9,883.16</b>	<b>\$7,748.59</b>

**Audit Exception No. 6**

**Subject: Capital Structure**

**Statement of Facts:** Buffalo Bluff Utilities, Inc. reported common stock of \$500, paid-in-capital of \$130,734, and retained earnings of (\$152,097) as elements of its capital structure in its 1999 Annual Report.

Additionally, the company reported a notes payable balance of \$105,124 in its 1999 Annual Report.

Prior Order No. PSC-00-1165-PAA-WS issued on June 27, 2000, classifies utility debt that is not supported by a debt instrument or an interest cost as other common equity.

**Recommendation:** The utility's capital structure is not properly stated per the USOA and the Commission rules cited previously in this report.

In discussions with the utility's outside accountant, audit staff determined the notes payable balance did not meet the requirements of debt and should be reclassified as other common equity per the Order stated above.

The following elements of the utility's capital structure were determined by audit staff using the company's 1999 Annual Report filed with the Commission on May 1, 2000.

<u>Elements of Capital Structure</u>	<u>At 5/31/00</u>
Common Stock	\$500
Paid-in-Capital	130,734
Retained Earnings	(152,097)
Total Common Equity	(20,863)
Other Common Equity	\$105,124

**EXHIBIT I**

**Buffalo Bluff Utilities, Inc  
Docket No. 000327-WS  
Water Net Operating Income  
12-Month Period Ended 05/31/00**

(a)	(b)	(c)	(d)	(e)
DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION	REFER TO	PER AUDIT
OPERATING REVENUES	\$0	\$8,300	E-4	\$8,300
OPERATING EXPENSES:				
O&M EXPENSE	\$0	\$9,883	E-5	\$9,883
DEPRECIATION EXPENSE (2)	\$0	\$0	E-1	\$0
CIAC AMORTIZATION (3)	\$0	\$0	E-3	\$0
TAXES OTHER THAN INCOME	\$0	\$1,067	E-5	\$1,067
TOTAL OPERATING EXPENSE	\$0	\$10,950		\$10,950
NET OPERATING INCOME(LOSS)	\$0	(\$2,650)		(\$2,650)

REQUIRED FOOTNOTES:

- (1) Utility balance set to zero. See Audit Exception No. 1.
- (2) No company records were available to establish depreciation expense.
- (3) No company records were available to establish CIAC amortization expense.

**EXHIBIT II**

**Buffalo Bluff Utilities, Inc.  
Docket No. 000327-WS  
Wastewater Net Operating Income  
12-Month Period Ended 05/31/00**

(a)	(b)	(c)	(d)	(e)
DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION	REFER TO	PER AUDIT
OPERATING REVENUES	\$0	\$8,725	E-4	\$8,725
OPERATING EXPENSES:				
O&M EXPENSE	\$0	\$7,749	E-5	\$7,749
DEPRECIATION EXPENSE (3)	\$0	\$0	E-1	\$0
CIAC AMORTIZATION (4)	\$0	\$0	E-3	\$0
TAXES OTHER THAN INCOME	\$0	\$966	E-5	\$966
TOTAL OPERATING EXPENSE	\$0	\$8,714		\$8,714
NET OPERATING INCOME(LOSS)	\$0	\$11		\$11

REQUIRED FOOTNOTES:

- (1) Utility balance set to zero. See Audit Exception No. 1.
- (2) No company records were available to establish depreciation expense.
- (3) No company records were available to establish CIAC amortization expense.

**EXHIBIT III**

**Buffalo Bluff Utilities, Inc.  
Docket No. 000327-WS  
Average Capital Structure  
As of May 31, 2000**

DESCRIPTION	PER COMPANY(2)	AUDIT EXCEPTION	REFER TO(1)	PER AUDIT(2)	RATIO	COST RATE(3)	WEIGHTED COST OF CAPITAL
COMMON EQUITY	(\$20,864)	\$0		(\$20,864)	(24.76)%	8.93%	(2.211)%
OTHER COMMON EQUITY	\$0	\$105,124	E-5	\$105,124	124.76%	8.93%	11.141%
LONG-TERM DEBT	\$0	\$0		\$0	0.00%	0.00%	0.000%
NOTES PAYABLE	\$105,124	(\$105,124)	E-5	\$0	0.00%	0.00%	0.000%
CUSTOMER DEPOSITS(4)	\$0	\$0		\$0	0.00%	6.00%	0.000%
ITC	\$0	\$0		\$0	0.00%	0.00%	0.000%
<b>TOTAL</b>	<b>\$84,260</b>	<b>\$0</b>		<b>\$84,260</b>	<b>100.00%</b>		<b>8.930%</b>

**REQUIRED FOOTNOTES:**

- 1) Audit adjustments do not include audit disclosures.
- 2) Common Equity amount from company's 1999 Annual Report
- 3) Cost rate for common equity established in Order No. PSC-99-1224-PAA-WS, issued June 21, 1999.
- 4) The company's tariff authorizes a customer deposit of \$25. The company does not collect this.