

State of Florida



## Public Service Commission

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

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**DATE:** May 24, 2001  
**TO:** Division of Regulatory Oversight (Clapp)  
**FROM:** Division of Regulatory Oversight (Vandiver) *W*  
**RE:** Docket No. 010119-WS; Steeplechase Utility Company, Inc. ; Establish Rate Base; Audit Control No. 01-047-3-1

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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, it should send the response to the Division of Records and Reporting. There are no confidential work papers associated with this audit.

### Attachment

cc: Division of Regulatory Oversight (Hoppe, Harvey, District Offices, File Folder)  
Division of Records and Reporting  
Division of Legal Services

Mr. Brian Bilinski  
Steeplechase Utility Company, Inc.  
P.O. Box 609520  
Orlando, Florida 32860-9520

Rutledge Law Firm

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING



**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF REGULATORY OVERSIGHT  
BUREAU OF AUDITING SERVICES*

*Orlando District Office*


**STEEPLECHASE UTILITY COMPANY, INC.**


**ESTABLISH RATE BASE AT TRANSFER**

**AS OF DECEMBER 31, 2000**

**DOCKET NO. 010119-WS  
AUDIT CONTROL NO. 01-047-3-1**

  
\_\_\_\_\_  
*Jeffery A. Small, Audit Manager*

  
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*Duane Chamberlin, Audit Staff*

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

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

**MAY 18, 2001**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to audit the financial records as of December 31, 2000, for Steeplechase Utility Company, Inc.<sup>1</sup> The attached Rate Base schedules were assembled by the audit staff as part of our work in the utility's application for a Certificate of Transfer in Docket No. 010119-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.

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<sup>1</sup> The sales contract between Steeplechase Utility Company, Inc. and Florida Water Services Corporation was executed on December 29, 2000. The audit staff, with the approval of the buyer and seller, used period ended December 31, 2000, for reporting purposes.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The utility's balances for water and wastewater utility-plant-in-service (UPIS) are understated by \$330,688 and \$702,405, respectively.

The utility's balances for water and wastewater land are understated by \$9,102 and \$30,725, respectively.

The utility's balances for water and wastewater accumulated depreciation (AD) are understated by \$20,881 and \$79,786, respectively.

The utility's balances for water and wastewater contributions-in-aid-of-construction (CIAC) are understated by \$377,063 and \$701,546, respectively.

The utility's balances for water and wastewater accumulated amortization of CIAC are understated by \$29,268 and \$80,212, respectively.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by examining, on a test basis, the utility's books and records since its original water and wastewater certificates were approved in FPSC Order No. 21063, issued April 18, 1989, which we believe is sufficient to base our opinion. 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 substantiating documentation was examined.

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

**RATE BASE:** Verified account balances for UPIS and CIAC as of December 31, 2000. Scanned 100 percent of utility-provided documents to identify additions to UPIS and CIAC as of December 31, 2000. Identified and established the original cost for the land that is occupied by the water and wastewater systems. Tested additions to accumulated depreciation and accumulated amortization of CIAC for proper rates and calculations. Assembled water and wastewater rate base exhibits as of December 31, 2000.

**NET OPERATING INCOME:** Recalculated a sample of customers' bills to verify the utility is charging rates authorized by its Commission tariffs. Verified the utility's 2000 Regulatory Assessment Fee returns filed with the Commission on March 21, 2001.

**Audit Exception No. 1**

**Subject: Utility-Plant-in-Service (UPIS) - Unrecorded Utility Infrastructure**

**Statement of Fact:** The utility's service territory, which was established in Orders Nos. 21063 and PSC-97-1508-FOF-WS, issued on November 26, 1997, includes the following 19 subdivisions that were developed by the utility's previous and succeeding parent entities.

<u>Year Built</u>	<u>Subdivision</u>	<u>Year Built</u>	<u>Subdivision</u>
1991	Floridian Club Estates	1994	Links Unit 1
1993	Lakes Unit 1	1994	Fairways Unit 1
1993	Hills Unit 1		
<hr/>			
1995	Lakes Unit 2 Phase 1	1998	Hills Unit 2
1995	Enclave Unit 1	1998	Overlook Unit 2
1996	Lakes Unit 2 Phase 2	1999	Fairways Unit 4
1996	Stonecrest Recreation Center	2000	Enclave Unit 4
1997	Overlook Unit 1	2000	Links Unit 2
1997	Stonecrest Center Unit 1	2000	Enclave Unit 3
1997	Fairways Unit 2		
1997	Enclave Unit 2		

The utility books and records include the original cost associated with the water and wastewater UPIS infrastructure for the five subdivisions built in 1991-1994.

NARUC, Class C, Accounting Instruction 6 A, requires that all non-refundable contributions of cash or plant facilities donated to the water or wastewater facility to assist in the constructing, extending, or relocating its water or wastewater facilities shall be credited to Account 271, Contributions-in-Aid-of Construction (CIAC).

Rule 25-30.140 (8)(a) requires that CIAC plant shall be amortized by account, function, or bottom line depending on the availability of supporting information. The amortization rate shall be that of the appropriate account or function where supporting documentation is available to identify the account or function of the related CIAC plant.

**Audit Exception No. 1, continued**

**Recommendation:** The audit staff has determined, and Stonecrest of Marion County, LTD. (SCOM) has confirmed, that SCOM built and paid for the water and wastewater utility infrastructure in the 14 subdivisions developed during the period 1995 through 2000 listed above. Additionally, none of the aforementioned utility infrastructure has been recorded on the books of Steeplechase Utilities, Inc. as of December 31, 2000. The entire utility infrastructure of the 14 subdivisions will be transferred to Florida Water Services Corporation (FWSC) with no expectation of payment, and it should be recorded as developer-contributed property.

The audit staff has determined that water and wastewater UPIS and CIAC are understated by \$384,963 and \$693,646, respectively, because of the audit staff's findings discussed above. Additionally, the audit staff's adjustment above will require the utility to increase its associated accumulated depreciation and accumulated amortization of CIAC by \$29,267 and \$80,212, respectively. See Schedules A and B that follow for audit staff's calculations.

The Commission should require the utility to make the following adjustments to its books to properly record the water and wastewater utility infrastructure discussed above per the NARUC and Commission rules cited above.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
101-331	UPIS - Transmission and Distribution Mains	\$278,123	
101-333	UPIS - Services	\$69,000	
101-335	UPIS - Hydrants	\$37,840	
271-331	CIAC - Transmission and Distribution Mains		\$278,123
271-333	CIAC - Services		\$69,000
271-335	CIAC - Hydrants		\$37,840

To record additions of \$384,963 to water UPIS and CIAC for developer donated infrastructures  
 (\$278,123 + \$69,000 + \$37,840 = \$384,963)

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
108-331	Acc./Dep. - Transmission and Distribution Mains		\$20,624
108-333	Acc./Dep. - Services		\$5,697
108-335	Acc./Dep. - Hydrants		\$2,946
272-331	Acc./Amortz. - Transmission and Distribution Mains	\$20,624	
272-333	Acc./Amortz. - Services	\$5,697	
272-335	Acc./Amortz. - Hydrants	\$2,946	

To record additions of \$29,267 to accumulated depreciation and accumulated amortization of CIAC associated with the water UPIS and CIAC additions mentioned above (\$20,624 + \$5,697 + \$2,946 = \$29,267)

**Audit Exception No. 1, continued**

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
101-360	UPIS - Collection Sewers - Force	\$57,683	
101-361	UPIS - Collection Sewers - Gravity	\$406,123	
101-363	UPIS - Services to Customers	\$67,415	
101-370	UPIS - Receiving Wells	\$162,425	
271-360	CIAC - Collection Sewers - Force		\$57,683
271-361	CIAC - Collection Sewers - Gravity		\$406,123
271-363	CIAC - Services to Customers		\$67,415
271-370	CIAC - Receiving Wells		\$162,425

To record additions of \$693,646 to wastewater UPIS and CIAC for developer donated infrastructures  
 (\$57,683 + \$406,123 + \$67,415 + \$162,425 = \$693,646)

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
108-360	Acc./Dep. - Collection Sewers - Force	\$10,069	
108-361	Acc./Dep. - Collection Sewers - Gravity	\$28,431	
108-363	Acc./Dep. - Services to Customers	\$5,574	
108-370	Acc./Dep. - Receiving Wells	\$36,138	
272-360	Acc./Amortz. - Collection Sewers - Force		\$10,069
272-361	Acc./Amortz. - Collection Sewers - Gravity		\$28,431
272-363	Acc./Amortz. - Services to Customers		\$5,574
272-370	Acc./Amortz. - Receiving Wells		\$36,138

To record additions of \$80,212 to accumulated depreciation and accumulated amortization of CIAC  
 associated with the wastewater UPIS and CIAC additions mentioned above  
 (\$10,069 + \$28,431 + \$5,574 + \$36,138 = \$80,212)



**Schedule A for Audit Exception No. 1**  
**Water Infrastructure Additions**

Year of Addition	NARUC Account	Amount	Rule 25.140 Service Life	1995	1996	1997	1998	1999	2000	Totals
1995	331.00	\$48,315.50	40	\$603.94	\$1,207.89	\$1,207.89	\$1,207.89	\$1,207.89	\$1,207.89	\$6,643.38
	333.00	12,300.00	35	175.71	351.43	351.43	351.43	351.43	351.43	1,932.86
	335.00	<u>8,000.00</u>	40	<u>100.00</u>	<u>200.00</u>	<u>200.00</u>	<u>200.00</u>	<u>200.00</u>	<u>200.00</u>	<u>1,100.00</u>
		68,615.50		879.66	1,759.32	1,759.32	1,759.32	1,759.32	1,759.32	9,676.24
1996	331.00	13,917.25	40		173.97	347.93	347.93	347.93	347.93	1,565.69
	333.00	4,600.00	35		65.71	131.43	131.43	131.43	131.43	591.43
	335.00	<u>3,200.00</u>	40		<u>40.00</u>	<u>80.00</u>	<u>80.00</u>	<u>80.00</u>	<u>80.00</u>	<u>360.00</u>
		21,717.25			279.68	559.36	559.36	559.36	559.36	2,517.12
1997	331.00	85,743.75	40			1,071.80	2,143.59	2,143.59	2,143.59	7,502.58
	333.00	16,400.00	35			234.29	468.57	468.57	468.57	1,640.00
	335.00	<u>10,240.00</u>	40			<u>128.00</u>	<u>256.00</u>	<u>256.00</u>	<u>256.00</u>	<u>896.00</u>
		112,383.75				1,434.08	2,868.17	2,868.17	2,868.17	10,038.58
1998	331.00	58,800.69	40				735.01	1,470.02	1,470.02	3,675.04
	333.00	16,550.00	35				236.43	472.86	472.86	1,182.14
	335.00	<u>7,000.00</u>	40				<u>87.50</u>	<u>175.00</u>	<u>175.00</u>	<u>437.50</u>
		82,350.69					1,058.94	2,117.87	2,117.87	5,294.69
1999	331.00	13,838.75	40					172.98	345.97	518.95
	333.00	2,700.00	35					38.57	77.14	115.71
	335.00	<u>1,400.00</u>	40					<u>17.50</u>	<u>35.00</u>	<u>52.50</u>
		17,938.75						229.06	458.11	687.17
2000	331.00	57,507.00	40						718.84	718.84
	333.00	16,450.00	35						235.00	235.00
	335.00	<u>8,000.00</u>	40						<u>100.00</u>	<u>100.00</u>
		81,957.00							1,053.84	1,053.84
Total	331.00	278,122.94								20,624.48
	333.00	69,000.00								5,697.14
	335.00	<u>37,840.00</u>								<u>2,946.00</u>
		\$384,962.94								\$29,267.63

**Schedule B for Audit Exception No. 1**  
**Wastewater Infrastructure Additions**

Year of Addition	NARUC Account	Amount	Rule 25.140 Service Life	1995	1996	1997	1998	1999	2000	Totals
1995	360.00	\$34,990.00	27	\$647.96	\$1,295.93	\$1,295.93	\$1,295.93	\$1,295.93	\$1,295.93	\$7,127.59
	361.00	42,050.00	40	525.63	1,051.25	1,051.25	1,051.25	1,051.25	1,051.25	5,781.88
	363.00	12,450.00	35	177.86	355.71	355.71	355.71	355.71	355.71	1,956.43
	370.00	<u>41,000.00</u>	18	<u>1,138.89</u>	<u>2,277.78</u>	<u>2,277.78</u>	<u>2,277.78</u>	<u>2,277.78</u>	<u>2,277.78</u>	<u>12,527.78</u>
		130,490.00		2,490.33	4,980.67	4,980.67	4,980.67	4,980.67	4,980.67	27,393.67
1996	360.00	0.00	27		0.00	0.00	0.00	0.00	0.00	0.00
	361.00	40,093.60	40		501.17	1,002.34	1,002.34	1,002.34	1,002.34	4,510.53
	363.00	3,600.00	35		51.43	102.86	102.86	102.86	102.86	462.86
	370.00	<u>0.00</u>	18		<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
		43,693.60			552.60	1,105.20	1,105.20	1,105.20	1,105.20	4,973.39
1997	360.00	22,692.70	27			420.24	840.47	840.47	840.47	2,941.65
	361.00	117,572.20	40			1,469.65	2,939.31	2,939.31	2,939.31	10,287.57
	363.00	17,265.00	35			246.64	493.29	493.29	493.29	1,726.50
	370.00	<u>121,425.00</u>	18			<u>3,372.92</u>	<u>6,745.83</u>	<u>6,745.83</u>	<u>6,745.83</u>	<u>23,610.42</u>
		278,954.90				5,509.45	11,018.89	11,018.89	11,018.89	38,566.13
1998	360.00	0.00	27				0.00	0.00	0.00	0.00
	361.00	93,471.00	40				1,168.39	2,336.78	2,336.78	5,841.94
	363.00	15,100.00	35				215.71	431.43	431.43	1,078.57
	370.00	<u>0.00</u>	18				<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
		108,571.00					1,384.10	2,768.20	2,768.20	6,920.51
1999	360.00	0.00	27					0.00	0.00	0.00
	361.00	23,876.00	40					298.45	596.90	895.35
	363.00	2,750.00	35					39.29	78.57	117.86
	370.00	<u>0.00</u>	18					<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
		26,626.00						337.74	675.47	1,013.21
2000	360.00	0.00	27						0.00	0.00
	361.00	89,060.00	40						1,113.25	1,113.25
	363.00	16,250.00	35						232.14	232.14
	370.00	<u>0.00</u>	18						<u>0.00</u>	<u>0.00</u>
		105,310.00							1,345.39	1,345.39
Total	360.00	57,682.70								10,069.24
	361.00	406,122.80								28,430.51
	363.00	67,415.00								5,574.36
	370.00	<u>162,425.00</u>								<u>36,138.19</u>
		\$693,645.50								\$80,212.30

## Audit Exception No. 2

**Subject:** UPIS - Misclassified and Unsupported Asset Additions

**Statement of Fact:** Utility records indicate the following additions to its UPIS accounts for the indicated year.

<u>Year</u>	<u>NARUC Acct.</u>	<u>Amount</u>	<u>Items</u>
1998	334	\$565.00	Meter repair expenses
1998	335	2,700.00	Paint 36 fire hydrants
1995	334	7,080.00	Unknown addition(s)
1996	334	12,189.83	Unknown addition(s)
1998	334	3,260.00	Unknown addition(s)
1999	345	1,186.00	Unknown addition(s)
1999	334	4,824.14	Unknown addition(s)
1999	333	550.00	Unknown addition(s)
2000	307	16,311.00	Potable Well No. 3
2000	311	<u>15,449.00</u>	Potable Well No. 3
Total Additions		\$64,114.97	

NARUC, Class C, Accounting Instruction 2. A., requires that all books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to fully support the facts pertaining to such entries.

NARUC, Class C, Balance Sheet Account 105, requires that this account shall include the cost of water plant in process of construction, but not ready for service.

NARUC, Class C, Accounting Instruction 4, requires that the cost of individual items of less than \$150 shall not be charged to utility plant accounts. The cost shall be charged to the appropriate operating expense or clearing account.

**Recommendation:** The audit staff has determined that water UPIS and its associated AD are overstated by \$64,115 and \$7,693, respectively, because of the following utility misclassifications and violations of the NARUC rules cited above. See Schedule C that follows for audit staff's calculations.

- 1) The water meter repairs should have been charged to water operating and maintenance (O&M) expense because the meter repairs were approximately \$85 per meter, which is below the capitalization level cited above. Additionally, expending such repairs has been the utility's policy for all other periods that audit staff reviewed during its investigation.
- 2) The 36 fire hydrants were painted as part of the utility's yearly maintenance program and should have been charged to water operations and maintenance expense.
- 3) Audit staff could not find any supporting documentation for the unknown additions. Therefore, they should be removed.

**Audit Exception No. 2, continued**

- 4) The Potable Well No. 3 was still under construction and had not been placed in service as of December 31, 2000. It should be recorded in Account No. 105, Construction Work-in-Progress (CWIP).

The Commission should require the utility to make the following adjustments to its books to properly record the misclassified items discussed above.

<u>Acc. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
101-307	UPIS - Wells & Springs		\$16,311
101-311	UPIS - Pumping Equipment		\$15,449
105-307	CWIP - Wells & Springs	\$16,311	
105-311	CWIP - Pumping Equipment	\$15,449	
108-307	Acc./Dep. - Wells & Springs	\$302	
108-311	Acc./Dep. - Pumping Equipment	\$515	
215-000	Retained Earnings		\$817

To reclassify \$31,760 for the potable well that was not placed in service to CWIP and to remove \$817 of associated accumulated depreciation  
 (\$16,311 + \$15,499 = \$31,760)

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
101-333	UPIS - Services		\$550
101-334	UPIS - Meters & Meter Installations		\$27,919
101-335	UPIS - Hydrants		\$2,700
101-345	UPIS - Power Operated Equipment		\$1,186
108-333	Acc./Dep. - Services	\$24	
108-334	Acc./Dep. - Meters & Meter Installations	\$6,505	
108-335	Acc./Dep. - Hydrants	\$169	
108-345	Acc./Dep. - Power Operated Equipment	\$178	
215-000	Retained Earnings	\$25,479	

To remove \$32,355 of UPIS additions that lacked supporting documentation or should have been recorded as utility O&M expense and \$6,876 of associated accumulated depreciation  
 (\$550 + \$27,919 + \$2,700 + \$1,186 = \$32,355)

**Schedule C for Audit Exception No. 2**

Year	NARUC Acc.#	Amount	Service Life	Purpose for Adjustment	1995	1996	1997	1998	1999	2000	Totals
1998	334.00	\$565.00	17	This adjustment removes additions that should have been recorded as O&M expense.				\$16.62	\$33.24	\$33.24	\$83.10
1998	335.00	<u>2,700.00</u>	40	This adjustment removes additions that should have been recorded as O&M expense.				33.75	67.50	67.50	<u>168.75</u>
	Subtotal	3,265.00									251.85
1999	333.00	550.00	35	This adjustment removes the unsupported additions.					7.86	15.71	23.57
1995	334.00	7,080.00	17	This adjustment removes the unsupported additions.	208.24	416.47	416.47	416.47	416.47	416.47	2,290.59
1996	334.00	12,189.83	17	This adjustment removes the unsupported additions.		358.52	717.05	717.05	717.05	717.05	3,226.72
1998	334.00	3,260.00	17	This adjustment removes the unsupported additions.				95.88	191.76	191.76	479.40
1999	345.00	1,186.00	10	This adjustment removes the unsupported additions.					59.30	118.60	177.90
1999	334.00	<u>4,824.14</u>	17	This adjustment removes the unsupported additions.					141.89	283.77	<u>425.66</u>
	Subtotal	29,089.97									6,623.84
	Total	32,354.97									6,875.69
2000	307.00	16,311.00	27	This adjustment reclassifies the potable well that is not in service on 12/31/00 to CWIP.						302.06	302.06
2000	311.00	<u>15,449.00</u>	15	This adjustment reclassifies the potable well that is not in service on 12/31/00 to CWIP.						514.97	<u>514.97</u>
	Totals	31,760.00									817.03
	307.00	16,311.00									\$302.06
	311.00	15,449.00		Summary of account totals for audit staff adjustments discussed above.							514.97
	333.00	550.00									23.57
	334.00	27,918.97									6,505.47
	335.00	2,700.00									168.75
	345.00	1,186.00									177.90
	Grand Totals	\$64,114.97									\$7,692.72

**Audit Exception No. 3**

**Subject: UPIS - Nontransferred Assets**

**Statement of Fact:** Utility records indicate the following additions to its UPIS accounts for the indicated year.

<u>Account</u>	<u>Item Description</u>	<u>Amount</u>	<u>Year</u>
340.00	Computer	\$981.72	1996
390.00	Computer	\$981.73	1996
340.00	Monitor	\$369.15	1997
390.00	Monitor	\$369.15	1997
390.00	Computer	\$1,798.82	1999
340.00	Computer	\$818.01	2000
390.00	Computer	\$818.02	2000
340.00	Palm Pilot	\$99.99	2000
390.00	Palm Pilot	\$100.00	2000

**Recommendation:** The audit staff has determined, and SCOM has confirmed, that the above-mentioned assets will not be transferred to FWSC in this proceeding. The following adjustments should be made to the utility's books to retire the nontransferred assets.

<u>Account</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
108.00	Acc./Dep. (Note A)	\$1,065	
186.00	Miscellaneous Deferred Debits (Note B)	\$1,204	
340.00	Office Furniture & Equipment		\$2,269
(\$981.72 + \$369.15 + \$818.01 + \$99.99 = \$2,268.87)			

<u>Account</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
108.00	Acc./Dep. (Note A)	\$1,491	
186.00	Miscellaneous Deferred Debits (Note B)	\$2,576	
390.00	Office Furniture & Equipment		\$4,067
(\$981.73 + \$369.15 + \$1,798.82 + \$818.12 + \$100.00 = \$4,067.72)			

Note A Retirement of Acc./Dep. is limited to the balance in the reserve account as of December 31, 2000.

Note B NARUC, Class C, Accounting Instruction 22 G - In some instances, the unexpected early retirement of a major unit of property, which would eliminate or seriously deplete the existing depreciation reserve, may require accounting treatment which differs from that described in paragraph B. In such instances the Commission may authorize or order the loss on retirement to be charged to income in the current year or to be transferred to Account 186, Miscellaneous Deferred Debits and amortized in future periods.

**Audit Exception No.-4**

**Subject: UPIS - Unrecorded Asset Additions**

**Statement of Fact:** Utility records indicate that the following additions to its O&M expenses accounts for the indicated year.

<u>Year</u>	<u>Amount</u>	<u>Item Description</u>
1997	\$227.50	Water design engineering cost
1997	\$130.00	Wastewater design engineering cost
1998	\$774.00	Wastewater design engineering cost
1999	\$6,987.32	Wastewater plant expansion cost
2000	\$11,880.00	Meter and meter installation cost
2000	\$1,932.00	Installation cost of flow meter at wastewater plant
2000	\$1,740.00	Installation cost of surge protection at wastewater plant
2000	\$185.00	Installation cost of chlorinator at wastewater plant
2000	\$1,077.96	Installation cost of roof at wastewater plant

NARUC, Class C, Accounting Instruction 3, requires that all utility plant shall be recorded at original cost.

NARUC, Class C, Accounting Instruction 4, requires that the cost of individual items of less than \$150 shall not be charged to utility plant accounts. The cost shall be charged to the appropriate operating expense or clearing account.

**Recommendation:** Audit staff has determined that water and wastewater UPIS are understated by \$12,108 and \$12,826, respectively, because the utility should have recorded the above-mentioned items as asset additions per the NARUC rules cited above. Additionally, the utility's water and wastewater accumulated depreciation are understated by \$371 and \$1,065, respectively, when you apply the appropriate depreciation rates to the audit staff's adjustment mentioned above. See Schedule D that follows for audit staff's calculations.

The Commission should require the utility to make the following adjustments to its books to properly record the UPIS asset additions discussed above.

<u>Acc. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
101-304	UPIS - Structures & Improvements	\$228	
101-334	UPIS - Meters & Meter Installations	\$11,880	
108-304	Acc./Dep. - Structures & Improvements		\$30
108-334	Acc./Dep. - Meters & Meter Installations		\$341
215-000	Retained Earnings		\$11,737

To record \$12,108 of capital additions to water UPIS and \$371 of associated accumulated depreciation  
 ([\$228 + \$11,880 = \$12,108] and [\$30 + \$341 = \$371])

**Audit Exception No.-4, continued**

<u>Acc. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
101-354	UPIS - Structures & Improvements	\$1,982	
101-364	UPIS - Flow Measuring Devices	\$1,932	
101-380	UPIS - Treatment & Disposal Equipment	\$8,912	
108-354	Acc./Dep. - Structures & Improvements		\$108
108-364	Acc./Dep. - Flow Measuring Devices		\$193
108-380	Acc./Dep. - Treatment & Disposal Equipment		\$763
215-000	Retained Earnings		\$11,762

To record \$12,826 of capital additions to wastewater UPIS and \$1,065 of associated accumulated depreciation  
(\$9,982 + \$1,932 + \$8,912 = \$12,826] and [\$108 + \$193 + \$763 = \$1,065])



**Schedule D for Audit Exception No. 4**

Year	NARUC Acc#	Amount	Service Life	Purpose for Adjustment	1995	1996	1997	1998	1999	2000	Totals
1997	304.00	\$227.50	27	Capitalize water UPIS engineering cost			\$4.21	\$8.43	\$8.43	\$8.43	\$29.50
2000	334.00	11,880.00	17	Capitalize water meters and meter installations						341.41	341.41
1997	354.00	130.00	27	Capitalize wastewater UPIS engineering cost			2.41	4.81	4.81	4.81	16.84
1998	354.00	774.00	27	Capitalize wastewater UPIS engineering cost				14.33	28.67	28.67	71.67
2000	354.00	<u>1,077.96</u> 1,981.96	27	Capitalize wastewater UPIS structure addition cost						19.96	<u>19.96</u> 108.47
2000	364.00	1,932.00	5	Capitalize wastewater flow meter cost						193.20	193.20
1999	380.00	6,987.32	15	Capitalize wastewater plant expansion cost					232.91	465.82	698.73
2000	380.00	185.00	15	Capitalize wastewater chlorinator cost						6.17	6.17
2000	380.00	<u>1,740.00</u>	15	Capitalize wastewater surge protector cost						57.99	<u>57.99</u>
	Totals	8,912.32									762.89
	304.00	227.50									29.50
	334.00	<u>11,880.00</u>		Summary of account totals for audit staff adjustments discussed above.							<u>341.41</u>
	Totals	12,107.50									370.91
	354.00	1,981.96									108.47
	364.00	1,932.00									193.20
	380.00	<u>8,912.32</u>									<u>762.89</u>
	Totals	\$12,826.28									\$1,064.56

## **Audit Exception No.-5**

### **Subject: Land and Land Rights**

**Statement of Fact:** Order No. 21438, issued June 26, 1989, recognized an annual long-term lease of \$2,229 and \$3,156 for the water and wastewater plant sites, respectively, between the developer and the newly certificated utility.

On December 29, 2000, SCOM executed a Warranty Deed that transferred approximately 2.29 acres and 7.73 acres of real property for the water and wastewater utility plant sites, respectively, to FWSC as part of this current proceeding.

NARUC, Class C, Accounting Instruction 3, requires that all UPIS shall be recorded at original cost.

NARUC, Class C, Definition 9, defines original cost as the costs of such property to the person first devoting it to public service.

**Recommendation:** The audit staff has calculated balances of \$9,102 and \$30,725 for water and wastewater land as of December 31, 2000, respectively, based on the following calculations and information detailed below.

#### Stonecrest Development:

On February 26, 1988, C.W. Baily and his wife, Joyce Baily, executed a Warranty Deed that transferred approximately 832.508 acres to the Shultz Corporation, an Oklahoma corporation, for \$3,309,000.

On February 13, 1989, the Shultz Corporation executed a Special Warranty Deed that transferred the above-mentioned property to Leisure Living for the Active Retiree Joint Venture (LLARJV), a related party.

LLARJV recorded a plated subdivision that dedicated certain lands contained in the above-mentioned parcel as utility sites and easements beginning in Plat Book 1, page 106 of the Marion County Records on January 26, 1990.

LLARJV was subsequently reorganized and succeeded out of bankruptcy court by SCOM, as recognized in Order No. PSC-97-1508-FOF-WS. The utility's 1992-2000 Annual Reports showed 100 percent utility ownership by SCOM.

The audit staff has determined that all of the events illustrated above involved related party transactions except for the transfer of real property interest from C.W. Baily to the Shultz Corporation on February 26, 1988. The aforementioned transaction should be used to determine the original cost of utility land for transfer purposes in this proceeding as required in the NARUC rules cited above.

**Audit Exception No. 5, continued**

Steeplechase - Water Plant Site:

The annual long-term lease mentioned above for the water plant site contained 5.18 acres.

On December 29, 2000, SCOM executed a Warranty Deed that transferred approximately 2.29 acres of the original water plant site to FWSC. The audit staff has determined a value of \$9,102 for water rate base transfer purposes.  $\{(\$3,309,000/832.508) \times 2.29 \text{ acres} = \$9,102\}$

Steeplechase - Wastewater Plant Site:

The annual long-term lease mentioned above for the wastewater plant site contained 7.73 acres.

On December 29, 2000, SCOM executed a Warranty Deed that transferred all 7.73 acres of the original wastewater plant site to FWSC. The audit staff has determined a value of \$30,725 for wastewater rate base transfer purposes.  $\{(\$3,309,000/832.508) \times 7.73 \text{ acres} = \$30,725\}$

The audit staff has determined that the following journal entry should be made to properly record the transfer of water and wastewater land, at its original cost, per the NARUC rules cited above.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
101-303	UPIS - Land & Land Rights	\$9,102	
101-353	UPIS - Land & Land Rights	\$30,725	
104-000	Utility Plant Purchased		\$39,827

To record the purchase of utility land at its original cost

**Audit Exception No. 6**

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

**Statement of Fact:** Utility records indicate additions of \$117,278 and \$114,573 to water and wastewater CIAC for the 12-month period ended December 31, 2000, respectively.

Order No. 21438 approved the following service availability charges.

Water System Capacity	\$900
Water Meter Installation	\$75
Wastewater System Capacity	\$1,175

**Recommendation:** Audit staff has calculated additions of \$109,378 and \$122,473 to water and wastewater CIAC for the 12-month period ended December 31, 2000, respectively.

Audit staff has determined that the utility's water and wastewater CIAC additions are overstated by \$7,900 and understated by \$7,900, respectively. ([\$117,278-\$109,378] and [\$114,573-\$122,473]) This is because the utility recorded four wastewater CIAC additions to its water CIAC accounts, and it recorded 16 water and wastewater CIAC additions in opposing CIAC accounts. See audit staff's calculations below. The corresponding effect on water and wastewater accumulated amortization of CIAC is not material, and no adjustment is proposed.

The Commission should require the utility to make the following adjustment to its books to correct the accounting errors discussed above.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
271-Water	CIAC - General Account		\$7,900
271-W/Water	CIAC - General Account	\$7,900	

To correct the utility's water and wastewater CIAC additions for the 12-month period ended December 31, 2000

<u>12-month period ended Dec.31, 2000</u>	<u>Water CIAC</u>			<u>Wastewater CIAC</u>		
	<u>Company</u>	<u>Adjustment</u>	<u>Audit</u>	<u>Company</u>	<u>Adjustment</u>	<u>Audit</u>
The utility recorded four wastewater CIAC additions to its water CIAC accounts. Note 1	\$4,700	(\$4,700)	\$0	\$0	\$4,700	\$4,700
The utility recorded 16 water and wastewater CIAC additions in opposing CIAC accounts. Notes 2&3	<u>18,800</u>	<u>(3,200)</u>	<u>15,600</u>	<u>15,600</u>	<u>3,200</u>	<u>18,800</u>
<b>Totals</b>	<b>\$23,500</b>	<b>(\$7,900)</b>	<b>\$15,600</b>	<b>\$15,600</b>	<b>\$7,900</b>	<b>\$23,500</b>

- 1) Wastewater tariff rate of \$1,175 x 4 = \$4,700
- 2) Wastewater tariff rate of \$1,175 x 16 = \$18,800

- 3) Water tariff rate of \$975 x 16 = \$15,600

**Audit Disclosure No. 1**

**Subject: Utility Wastewater Rates**

**Statement of Fact:** Order No. 21438, established the following initial wastewater tariff with an effective date of August 23, 1989.

Rate	
Base Facility Charge	\$10.44
Gallage Charge per 1,000 gallons, maximum of 10,000 gallons	\$1.65

On June 12, 1998, the utility was notified that its application for 1998 Price Index and Pass-Through Rate Adjustment to its wastewater tariff had been administratively approved with an effective date of June 30, 1998. It established the following wastewater rates.

Rate	
Base Facility Charge	\$10.67
Gallage Charge per 1,000 gallons, maximum of 10,000 gallons	\$1.69

Recital No. 10 in the "Agreement for Purchase and Sale" dated December 22, 2000, states that FWSC agrees that, until June 1, 2003, FWSC shall not increase rates in any manner for any customer located in the territory served by Steeplechase prior to the date of closing or for any customer in a territory added to FWSC certificates pursuant to this agreement.

**Recommendation:** The audit staff's analytical review of the utility's rates and charges during the 12-month period ended December 31, 2000, indicates, and utility personnel confirmed, that the utility does not charge the tariff rates for wastewater services. The utility instituted a maximum gallonage cap of 5,000 gallons for wastewater charges to residential customers several years back.

The utility's annual wastewater revenues are understated because of the above utility policy decision to suspend wastewater charges to customers with consumption levels above 5,000 gallons rather than the tariff level of 10,000 gallons. The audit staff was not able to determine when this policy was instituted nor calculate its overall effect on the utility's wastewater revenues.

Additionally, the recital to the sales contract mentioned above may affect FWSC's ability to charge the wastewater rates approved by the Commission in its last authorized tariff.

Audit staff defers this issue to the analyst in Tallahassee.

**EXHIBIT I**

**STEEPLECHASE UTILITY COMPANY, INC.  
WATER RATE BASE  
DOCKET NO. 010119-WS  
ESTABLISH RATE BASE AT TRANSFER  
AS OF DECEMBER 31, 2000**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO(2&3)	PER AUDIT(1)
UTILITY PLANT-IN-SERVICE	\$835,935	\$330,688	Note A	\$1,166,623
LAND & LAND RIGHTS	0	9,102	E-5	9,102
CONSTRUCTION-WORK-IN-PROGRESS	0	31,760	E-2	31,760
CONTRIBUTIONS-IN-AID- OF-CONSTRUCTION (CIAC)	(636,935)	(377,063)	Note B	(1,013,998)
ACCUMULATED DEPRECIATION	(210,715)	(20,881)	Note C	(231,596)
ACCUMULATED AMORTIZATION OF CIAC	<u>102,249</u>	<u>29,268</u>	E-1	<u>131,517</u>
<b>TOTAL</b>	<b>\$90,535</b>	<b>\$2,873</b>		<b>\$93,408</b>

**FOOTNOTES:**

- 1) Small differences can be attributed to rounding errors.
- 2) Audit adjustments do not include Audit Disclosures.
- 3) Adjustments calculated as displayed below.

<u>Audit Exception</u>	<u>Note A</u>	<u>Note B</u>	<u>Note C</u>
No. 1	\$384,963	(\$384,963)	(\$29,267)
No. 2	(64,115)	0	7,693
No. 3	(2,269)	0	1,065
No. 4	12,108	0	(371)
No. 6	<u>0</u>	<u>7,900</u>	<u>0</u>
Total Adjustment	\$330,688	(\$377,063)	(\$20,881)

**EXHIBIT II**

**STEEPLECHASE UTILITY COMPANY, INC.  
WASTEWATER RATE BASE  
DOCKET NO. 010119-WS  
ESTABLISH RATE BASE AT TRANSFER  
AS OF DECEMBER 31, 2000**

DESCRIPTION	PER UTILITY(1)	AUDIT EXCEPTION(1)	REFER TO(2&3)	PER AUDIT(1)
UTILITY PLANT-IN-SERVICE	\$698,417	\$702,405	Note A	\$1,400,822
LAND & LAND RIGHTS	0	30,725	E-5	30,725
CONSTRUCTION-WORK-IN-PROGRESS	0	0	E-2	0
CONTRIBUTIONS-IN-AID- OF- CONSTRUCTION (CIAC)	(740,397)	(701,546)	Note B	(1,441,943)
ACCUMULATED DEPRECIATION	(280,298)	(79,786)	Note C	(360,084)
ACCUMULATED AMORTIZATION OF CIAC	<u>150,521</u>	<u>80,212</u>	E-1	<u>230,733</u>
<b>TOTAL</b>	<b>(\$171,757)</b>	<b>\$32,010</b>		<b>(\$139,747)</b>

**FOOTNOTES:**

- 1) Small differences can be attributed to rounding errors.
- 2) Audit adjustments do not include Audit Disclosures.
- 3) Adjustments calculated as displayed below.

<u>Audit Exception</u>	<u>Note A</u>	<u>Note B</u>	<u>Note C</u>
No. 1	\$693,646	(\$693,646)	(\$80,212)
No. 3	(4,067)	0	1,491
No. 4	12,826	0	(1,065)
No. 6	<u>0</u>	<u>(7,900)</u>	<u>0</u>
Total Adjustment	\$702,405	(\$701,546)	(\$79,786)