

FLORIDA PUBLIC SERVICE COMMISSION
AUDIT REPORT
TWELVE MONTHS ENDED DECEMBER 31, 1996

FIELD WORK COMPLETED
AUGUST 7, 1997

J. SWIDERSKI UTILITIES, INC.
LEESBURG, FLORIDA
LAKE COUNTY

OVEREARNINGS REVIEW
DOCKET NO. 970645-WS
AUDIT CONTROL NO. 97-155-3-1

Richard F. Brown

RICHARD F. BROWN
AUDIT MANAGER

AUDIT STAFF
CHARLESTON J. WINSTON

MINORITY OPINION
YES ___ NO CSW

Ian J. Forbes

IAN J. FORBES
DISTRICT AUDIT SUPERVISOR
ORLANDO

DOCUMENT NUMBER DATE

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FPSC-RECORDS/REPORTING

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I. EXECUTIVE SUMMARY

AUDIT PURPOSE: We have applied the procedures described in Section II of this report to prepare proposed schedules of Rate Base, Net Operating Income, and Capital Structure for the twelve month-period ending December 31, 1996, for J. Swiderski Utilities, Inc. pursuant to an overearnings review.

DISCLAIM PUBLIC USE: This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must 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.

OPINION: The schedules of Rate Base, Net Operating Income, and Capital Structure for the twelve-month period ending December 31, 1996, represent J. Swiderski Utilities, Inc.'s company books and records that are not maintained in substantial compliance with Commission directives. The expressed opinions extend only to the scope of work described in Section II of this report.

SUMMARY FINDINGS:

The company's books and records are not in compliance with NARUC.

Established plant-in-service and accumulated depreciation for the period ending December 31, 1996.

Established CIAC and amortization for the period ending December 31, 1996.

Calculated working capital allowance for water, \$2,940 and wastewater, \$4,296.

II. AUDIT SCOPE

The opinions contained in this report are based on the audit work described below. When used in this report, compiled means that audit work includes:

COMPILED: means that the audit staff reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity or inconsistency; and, except as noted, performed no other audits.

RATE BASE: Prepared J. Swiderski Utilities, Inc.'s water and wastewater rate bases at December 31, 1996. Traced all water and wastewater plant additions reflected per the cash disbursements ledger from June 30, 1994 through December 31, 1996, to supporting documentation. Compiled additions to contributions-in-aid-of-construction from June 30, 1994 through December 31, 1996. Computed the depreciation reserve and accumulated amortization of December 31, 1996. Computed the working capital allowance on staff-adjusted operation and maintenance expense.

NET OPERATING INCOME: Prepared water and wastewater Net Operating Income Statements for J. Swiderski Utilities, Inc. for the twelve-month period ended December 31, 1996. Traced approximately 95 percent of test year operating expenses to source documentation. Recalculated individual test year billings on a sample basis.

CAPITAL STRUCTURE: Compiled equity and debt account balances at December 31, 1996, and obtained copies of loan agreements funding rate base.

Audit Exception No. 1

Subject: Company's Books and Records

Facts: The books and records of the utility were not in substantial compliance with NARUC Water and Wastewater Class "C" Accounting Instructions 2A & B. The examination was compromised based on the following:

Account descriptions and corresponding numbering for accounts differed from those designated per the Uniform System of Accounts.

The utility does not maintain a general ledger.

Revenues and expenses recorded via the utility's cash disbursements ledger were not maintained or adjusted to reflect the accrual basis of accounting.

The financial data submitted via the utility's Annual Report, in most instances, did not reconcile to the amounts reflected per its 1996 cash disbursements ledger.

Opinion/Conclusion: Utility did not comply with the above-referenced instruction.

Plant-in-Service

The utility company did not reconcile plant-in-service to the prior Order Number PSC-95-0129-FOF-WS. Plant additions were not properly recorded. Plant retirements were not recorded. See Audit Exception No. 2.

Accumulated Depreciation

The utility company did not reconcile accumulated depreciation to the prior order as stated above. Accumulated Depreciation was not properly calculated, and the wrong rates were used. See Audit Exception No. 2.

Contributions-In-Aid-of-Construction and Amortization

The utility company did not reconcile CIAC to the prior order as stated above. Prior CIAC and new additions were not recorded even though there were new customer connections. CIAC amortization was not recorded. See Audit Exception No. 3.

Recommendation: Direct the utility to maintain its books and records in compliance with NARUC Water and Wastewater Class "C" Accounting Instructions.

Audit Exception No. 2

Subject: Plant-in-Service and Accumulated Depreciation

Facts: Per Audit Exception No. 1, the company did not follow NARUC in recording its plant-in-service.

Opinion and Recommendation: To properly state plant-in-service for the period ending December 31, 1996, the following adjustments are required:

Water:

	Per Company	Per Audit	Required Adjustment
Beginning balance	\$88,665	\$ 160,927	\$72,262
Plant Additions 7/1/94 to 12/31/94	0	1,468	1,468
Plant Additions - 1995	5,117	2,107	(3,010)
Plant Retirements - 1995*	0	(675)	(675)
Plant Additions - 1996	4,000	3,732	(268)
Plant Retirements - 1996*	0	(1,350)	(1,350)
Total:	<u>\$97,782</u>	<u>\$ 166,209</u>	<u>\$68,427</u>

*The plant retirements consisted of replaced meters.

The utility company did not record any water land on its books, therefore, it should be increased \$1,901 to reconcile to Order No. PSC-95-0129-FOF-WS.

The associated adjustment to increase accumulated depreciation at December 31, 1997 is \$29,281. The adjustment to increase depreciation expense at December 31, 1996 is \$3,157.

Wastewater:

	Per Company	Per Audit	Required Adjustment
Beginning balance	\$179,845	\$253,316	\$73,471
Plant Additions 7/1/94 to 12/31/94	0	1,321	1,321
Plant Additions - 1995	0	5,752	5,752
Plant Retirements - 1995*	0	(2,500)	(2,500)
Plant Additions - 1996	4,785	8,533	3,748
Plant Retirements - 1996	0	0	0
Total:	<u>\$184,630</u>	<u>\$266,422</u>	<u>\$81,792</u>

*The plant retirement was for a fence replaced at the wastewater plant.

The utility company did not record any wastewater land on its books; therefore, it should be increased \$13,314 to reconcile to Order No. PSC-95-0129-FOF-WS.

The associated adjustment to increase Accumulated Depreciation at December 31, 1997 is \$51,170.
The adjustment to increase Depreciation Expense at December 31, 1996 is \$6,406.

The Commission should require the utility company to record the above adjustments.

Audit Exception No. 3

Subject: CIAC and Amortization

Facts: Per Audit Exception No. 1, the utility company did not record any CIAC and amortization for 1994 through 1996.

Opinion and Recommendation: Per the attached schedule, the following adjustments are required to properly state CIAC for the period ending December 31, 1996.

Increase water CIAC:	\$ 92,213
Increase wastewater CIAC:	\$158,530

The associated adjustments to CIAC amortization are as follows:

Increase water CIAC amortization:	\$ 27,049
Increase wastewater CIAC amortization:	\$ 59,520

The associated adjustments to CIAC amortization expense are as follows:

Increase water CIAC amortization expense:	\$ 3,652
Increase wastewater CIAC amortization expense:	\$ 7,372

The Commission should require the utility company to record the above adjustments.

AUDIT EXCEPTION NO. 3 - SCHEDULE

WATER			WASTEWATER	
Beginning Balance @ 6/30/94	62,513		Beginning Balance @ 6/30/94	116,930
CIAC ADDITIONS 3 x 900	<u>2,700</u>		CIAC ADDITIONS 3 x 1,300	<u>3,900</u>
Balance @ 12/31/94	65,213		Balance @ 12/31/94	120,830
CIAC ADDITIONS 0 x 900	<u>0</u>		CIAC ADDITIONS 0 x 1,300	<u>0</u>
Balance @ 12/31/95	65,213		Balance @ 12/31/95	120,830
CIAC ADDITIONS 30 x 900	<u>27,000</u>		CIAC ADDITIONS 29 x 1,300	<u>37,700</u>
Balance @ 12/31/96	92,213		Balance @ 12/31/96	158,530

Audit Exception No. 4

Subject: Working Capital Allowance

Facts: The working capital allowance has been computed based on the 1/8 formula method to comply with prior Commission Order No. PSC-95-0129-F0F-WS.

Opinion and Recommendation: The respective water and wastewater working capital allowances were computed as \$2,940 and \$4,296 based on staff-adjusted operation and maintenance expenses of \$23,523 and \$34,365. These amounts should be included in rate base.

Audit Exception No. 5

Subject: Reclassification of Utility Data

Facts: The utility's only book of record is a cash receipts and disbursements ledger. All disbursements are recorded by check and are charged to a limited number of non-NARUC accounts.

The utility processed 247 checks during the test year ended December 31, 1996. The majority of the data during the period was erroneously classified to various accounts via the ledger.

Opinion/Conclusions: Numerous items charged to operations by the utility were applicable to out-of-period, non-utility, and capital expenditures. In addition, other accounts had to be adjusted to reflect accruals of amounts that were paid in the subsequent accounting period.

Due to this situation, field staff reclassified all 247 items into the designated NARUC accounts and adjusted the balances of the operating accounts per the utility's 1996 Annual Report to reflect staff totals.

Recommendation. Staff recommends that water and wastewater operation and maintenance expense be reduced by \$4,317.82 and \$5,696.47, respectively. Water taxes other than income should be increased by \$3,673.31, and wastewater should be decreased by \$465.22.

JOE SWIDERSKI UTILITIES, INC. (KINGS COVE)
 OVERTHEARNINGS INVESTIGATION
 RATE BASE BALANCES - WATER
 PERIOD ENDING DECEMBER 31, 1996 EXHIBIT I

DESCRIPTION	BALANCE PER BOOKS @ 12/31/96	AUDIT EXCEPTIONS	Refer to	BALANCE PER AUDIT @ 12/31/96	AVERAGE BALANCE @ 12/31/96
UTILITY PLANT IN SERVICE	97,782	68,427	E-2	166,209	165,018
LAND/NON DEPRECIABLE ASSETS	0	1,977	E-2	1,977	1,977
PLANT HELD FOR FUTURE USE	0	0		0	0
C. I. A. C.	0	(92,213)	E-3	(92,213)	(78,713)
C. W. I. P.	0	0		0	0
ACCUMULATED DEPRECIATION	(23,610)	(29,281)	E-2	(52,891)	(50,271)
AMORTIZATION - C. I. A. C.	0	27,049	E-3	27,049	25,223
WORKING CAPITAL	0	2,940	E-4	2,940	2,940
TOTALS	74,172	(21,101)		53,071	66,174

JOE SWIDERSKI UTILITIES, INC. (KINGS COVE)
 OVERTHEARNINGS INVESTIGATION
 RATE BASE BALANCES - WASTEWATER
 PERIOD ENDING DECEMBER 31, 1996 EXHIBIT II

DESCRIPTION	BALANCE PER BOOKS @ 12/31/96	AUDIT EXCEPTIONS	Refer to	BALANCE PER AUDIT @ 12/31/96	AVERAGE BALANCE @ 12/31/96
UTILITY PLANT IN SERVICE	184,630	81,792	E-2	266,422	262,156
LAND/NON DEPRECIABLE ASSETS	0	13,314	E-2	13,314	13,314
PLANT HELD FOR FUTURE USE	0	0		0	0
C. I. A. C.	0	(158,530)	E-3	(158,530)	(139,680)
C. W. I. P.	0	0		0	0
ACCUMULATED DEPRECIATION	(43,063)	(51,170)	E-2	(94,233)	(88,039)
AMORTIZATION - C. I. A. C.	0	59,520	E-3	59,520	55,834
WORKING CAPITAL	0	4,296	E-4	4,296	4,296
TOTALS	141,567	(30,778)		90,789	107,881

JOE SWIDERSKI UTILITIES, INC. (KINGS COVE)
 OVEREARNINGS INVESTIGATION
 NET OPERATING INCOME - WATER
 PERIOD ENDING DECEMBER 31, 1996 EXHIBIT III

<i>DESCRIPTION</i>	<i>BALANCE PER BOOKS @ 12/31/96</i>	<i>AUDIT EXCEPTIONS</i>	<i>Refer To:</i>	<i>BALANCE PER AUDIT @ 12/31/96</i>
<i>OPERATING REVENUES</i>	53,630	0		53,630
<i>OPERATING EXPENSES:</i>				
<i>O & M EXPENSE</i>	27,841	(4,318)	E-5	23,523
<i>DEPRECIATION EXPENSE/AMORT.</i>	3,433	(495)	E-2	2,938
<i>TAXES OTHER</i>	1,508	3,673	E-5	5,181
<i>INCOME TAX EXPENSE (1)</i>	0	0		0
 <i>NET OPERATING PROFIT (LOSS)</i>	 20,848	 1,140		 21,988

JOE SWIDERSKI UTILITIES, INC. (KINGS COVE)
 OVEREARNINGS INVESTIGATION
 NET OPERATING INCOME - WASTEWATER
 PERIOD ENDING DECEMBER 31, 1996 EXHIBIT IV

DESCRIPTION	BALANCE PER BOOKS @ 12/31/96	AUDIT EXCEPTIONS	Refer To:	BALANCE PER AUDIT @ 12/31/96
OPERATING REVENUES	60,650	0		60,650
OPERATING EXPENSES:				
O & M EXPENSE	40,061	(5,696)	E-5	34,365
DEPRECIATION EXPENSE/AMORT.	5,982	(966)	E-2	5,016
TAXES OTHER	1,525	(465)	E-5	1,060
INCOME TAX EXPENSE (1)	0	0		0
NET OPERATING PROFIT (LOSS)	13,082	7,128		20,210

JOE SWIDERSKI UTILITIES, INC. (KINGS COVE)
 OVEAREARNINGS INVESTIGATION
 CAPITAL STRUCTURE
 PERIOD ENDING DECEMBER 31, 1996

EXHIBIT V

DESCRIPTION	PER BOOKS @ 12/31/96	RATIO	COST RATE	WEIGHTED AVERAGE COST OF CAPITAL
Equity	106,841	39.17%	10.50%	4.11%
Other Paid-In Capital	0	0.00%	0.00%	0.00%
Notes Payable - United Southern	127,895	46.88%	9.25%	4.34%
Notes Payable - J. Swiderski	5,000	1.83%	7.25%	0.13%
Notes Payable - J. Swiderski	3,000	1.10%	11.00%	0.12%
Notes Payable - J. Swiderski	2,000	0.73%	11.00%	0.08%
Notes Payable - J. Swiderski	5,000	1.83%	11.00%	0.20%
Notes Payable - J. Swiderski	6,300	2.31%	10.00%	0.23%
Notes Payable - J. Swiderski	10,000	3.67%	9.50%	0.35%
Notes Payable - J. Swiderski	2,000	0.73%	8.50%	0.06%
Notes Payable - J. Swiderski	2,000	0.73%	8.50%	0.06%
Notes Payable - J. Swiderski	250	0.09%	7.50%	0.01%
Notes Payable - J. Swiderski	2,500	0.92%	7.50%	0.07%
Customer Deposits	0	0.00%	0.00%	0.00%
TOTALS	272,786	100.00%		9.76%

STATE OF FLORIDA

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
DIANE K. KIESLING
JOE GARCIA



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

Public Service Commission

August 15, 1997

Mr. J. Swiderski
J. Swiderski Utilities, Inc.
9800 U. S. Highway 441, Suite 102
Leesburg, Florida 34788-3918

Re: Docket No. 970645-WS -- J. Swiderski Utilities, Inc.
Audit Report - Earnings Review - 12 Months Ended December 31, 1996
Audit Control # 97-155-3-1

Dear Mr. J. Swiderski:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script that reads "Kay Flynn".

Kay Flynn, Chief
Bureau of Records

BSB/DNV/cls
Enclosure
cc: Public Counsel