

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF SDW CORPORATION)
FOR A RATE ADJUSTMENT PURSUANT TO)
THE ALTERNATIVE RATE FILING PROCEDURE) CASE NO. 9483
FOR SMALL UTILITIES)

O R D E R

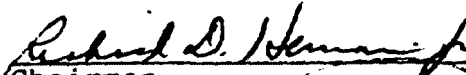
IT IS ORDERED that:

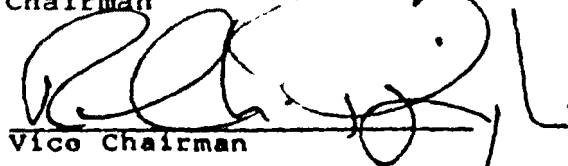
1. The Staff Audit Report for SDW Corporation ("SDW") attached hereto as Appendix A shall be included as a part of the record in this proceeding.

2. SDW shall have until the close of business March 21, 1986, to file written comments concerning the contents of Appendix A.

Done at Frankfort, Kentucky, this 13th day of March, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A
Report on Limited Audit
of
SDW Corporation

PREFACE

On December 20, 1985, the SDW Corporation ("SDW") filed, pursuant to 807 KAR 5:076 (Alternate Rate Filing), an application seeking an increase in rates. The proposed rates would generate \$13,041 annually in additional revenues.

On January 28, 1986, the Commission staff sent SDW Information Request No. 1 in order to obtain supplemental information to better understand and evaluate the case. The response from SDW did address the issues but several questions still remained. In order to expedite the processing of the case, the Commission staff chose to perform an audit, limited in scope, on the operations of SDW. The audit was conducted by Mr. Isaac Scott of the Division of Rates and Tariffs on February 24, 1986, at the offices of Newcom, Wilcox, and Hicks, Certified Public Accountants.

SCOPE

The scope of this audit was limited to determining whether or not the test-year operating expenses, as reported by SDW in the unaudited income statement for the year ended September 30, 1985, were accounted for in accordance with the Uniform System of Accounts for Sewer Utilities ("Uniform System of Accounts") and were related to the test year. Each test year expenditure was reviewed, invoices relating to most expenditures were reviewed,

the workpapers of SDW's CPA, Mr. David Hicks ("CPA") were reviewed. Discussions were held with Mr. William Kurek of SDW and the CPA to determine SDW's financial policies and procedures and to answer questions relating to the accounting treatment accorded specific expenditures.

FINDINGS

SDW has neither been audited or requested any increases prior to the present application. A review of the accounting system revealed that SDW's financial records were not maintained in accordance with the Uniform System of Accounts as required by the Commission. However, SDW's CPA had prepared the income statement in a format corresponding to the account presentation in the Uniform System of Accounts. With only minor exceptions, the test year expenses reported by SDW were for that specific period.

Following is a discussion of the recommended adjustments to the test-year operating expenses:

Outside Services - Legal

SDW reported \$250 as outside services-legal during the test year. A review of the invoices revealed that only \$125 had actually been paid in the test year. The payment was to the Waste Water Treatment Council and represented partial payment to a pledge to contribute an amount to support this organization. Such a voluntary transaction would not be subject to accrual. Therefore, the amount reported as outside services-legal has been reduced \$125.

Miscellaneous General Expense

Miscellaneous general expense were reported by SDW to be \$122 for the test year. A review of the invoices revealed an additional expenditure of \$35 which had not been reported. No evidence existed to indicate why the expenditure was omitted. The payment was to CT Corporation for copies of articles and amendments requested by SDW's attorney at that time, Mr. Thomas Conder. The miscellaneous general expense has been increased by \$35.

Other Adjustments

Minor errors were noted in the reported balances for three income statement accounts. These errors were the result of incorrectly recording the account balances on the income statement and the inclusion of expenditures which were not incurred during the test year. The effected accounts were Residential-Flat Rate Revenue, Electricity, and Miscellaneous General Expense. The summary of the adjustments presents the actual revision for each account.

SUMMARY

The following is a summary of the effect of these adjustments on SDW's test-year operating statement:

	<u>Test Year Reported</u>	<u>Staff Adjustments</u>	<u>Test Year Adjusted</u>
Revenue:			
Residential-Flat Rate Revenue	\$ 11,812	\$ 1	\$ 11,811
Operating Expenses:			
Operating Service Fee	3,960		3,960
Sludge Hauling	770		770
Water	144		144
Electricity	6,361	5	6,366
Chemicals	97		97
Maintenance of Plant	48	(6)	42
Collection Fee	233		233
Outside Services-Legal	250	(125)	125
Accounting	100		100
Miscellaneous General Expense	122	35	157
Depreciation	18,164		18,164
Taxes Other than Income Taxes:			
Franchise Tax	1,030		1,030
Public Service Co Property	285		285
PSC Assessment	50		50
Total Operating Expenses	<u>\$ 31,614</u>	<u>\$ (91)</u>	<u>\$ 31,523</u>
Net Operating Income (Loss)	<u>(19,802)</u>	<u>90</u>	<u>(19,712)</u>
Other Deductions:			
Debt Repayment Interest	<u>57</u>		<u>57</u>
Net Income (Loss)	<u><u>\$ (19,859)</u></u>	<u><u>\$ 90</u></u>	<u><u>\$ (19,769)</u></u>

Because of the limited scope of this audit, the staff has not determined the reliability of SDW's plant in service; therefore, the staff has made no attempt to verify SDW's depreciation expense. This utility has had three changes in ownership since 1979; the first two ownership transfers were approved by the Commission. In those transfers, the cost of the plant in service was not properly recorded as required by the Uniform System of Accounts, as evidenced in the 1980 and 1984 Annual Reports submitted to the Commission. The third ownership transfer was in December 1984 and has not been approved by the Commission to date.

It was previously stated in this report that SDW had not maintained its books in accordance with the Uniform System of Accounts. SDW should immediately adopt the Uniform System of Accounts and strictly adhere to its guidelines for accounting treatment of revenues and expenditures.



Isaac Scott
Public Utilities Financial Analyst
Public Service Commission
Division of Rates and Tariffs
Revenue Requirements Section