

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

THE APPLICATION OF EVERGREEN)
SEWAGE DISPOSAL SYSTEM, INC.,)
FOR A RATE ADJUSTMENT PURSUANT) CASE NO. 9514
TO THE ALTERNATIVE RATE FILING)
PROCEDURE FOR SMALL UTILITIES)

O R D E R

IT IS ORDERED that:

1. The Staff Audit Report for Evergreen Sewage Disposal System, Inc., ("Evergreen") attached hereto as Appendix A shall be included as a part of the record in this proceeding.
2. Evergreen shall have until the close of business within 2 weeks of the date of this Order to file written comments concerning the contents of Appendix A.

Done at Frankfort, Kentucky, this 10th day of April, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Hemmelf
Chairman

Paul D. [Signature]
Vice Chairman

James N. Williams
Commissioner

ATTEST:

Secretary

APPENDIX A
REPORT ON LIMITED AUDIT
OF
EVERGREEN SEWAGE DISPOSAL SYSTEM, INC.

PREFACE

On February 13, 1986, Evergreen Sewage Disposal System, Inc., ("Evergreen") filed an application with the Commission to increase its rates pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). The proposed rate would produce an additional \$2,052 annually, an increase of 34 percent over test period revenues. In order to expedite the processing of ARF cases, the Commission chose to perform a limited scope audit of Evergreen's financial records and financial statements for the test period in this case. The limited scope audit was performed by Mr. Tom Wells of the Division of Rates and Tariffs on March 20, 1986, at the home of Ms. Clarice Howard, the bookkeeper for Evergreen.

SCOPE

The scope of this audit was limited to ascertaining whether the operating expenses and revenues and balance sheet accounts as reported in the 1985 Annual Report, the test period, were recorded according to the Uniform System of Accounts for Sewer Systems and were representative of normal operations. Based upon a review of Evergreen's past two rate cases (the applications, the interrogatories and responses, final orders) and based upon an analysis of 1983, 1984, and 1985 Annual Reports and the application in this

case, certain balance sheet and income statement accounts were selected for audit. These accounts were:

1. Utility Plant - Account Nos. 101-109; additions since 1980.
2. Notes Payable - Account No. 231.
3. Residential Revenues - Account No. 521.1.
4. Fuel and Power Purchased for Pumping and Treatment - Account No. 703.
5. Other Interest Expense - Account No. 431.

FINDINGS

The only exception discovered was in the classification of a plant-in-service item. In 1982, Evergreen expended \$1,738 to Brock-McVey Company of Frankfort, invoice no. F-322721, to rebuild certain pumping equipment. The expenditure was erroneously capitalized as Treatment and Disposal Plant, Sub-Account No. 373, and not capitalized to Pumping Equipment-Electric - Account No. 363A. As Treatment and Disposal Plant is depreciated over 25 years and electrical pumping equipment is depreciated over 5 years, additional depreciation in the amount of \$278 should be recognized for the test period. Accordingly, additional Accumulated Provision for Depreciation and Amortization should be recognized in the amount of \$1,392 with a corresponding debit to Unappropriated Retained Earnings - Account No. 215 in the amount of \$1,114. The journal entry to adjust Evergreen's books for this error is as follows:

<u>Account</u>	<u>Account No.</u>	<u>Amount</u>	<u>Debit/ Credit</u>
Pumping Equipment-Electrical	363A	\$1,738	Debit
Unappropriated Retained Earnings	215	1,114	Debit
Depreciation Expense	403	278	Debit
Treatment and Disposal Plant	373	1,738	Credit
Accumulated Provision for Depreciation & Amortization	110	1,392	Credit

CONCLUSION

Evergreen's books of account reflected no major accounting exceptions during 1985. Therefore, the operating statement to be used for Evergreen in this proceeding is as follows:

<u>Account</u>	<u>Account No.</u>	<u>Amount</u>
<u>Operating Revenues:</u>		
Total Operating Revenues		\$ 6,000
<u>Operating Expenses:</u>		
Supervision & Engineering	700	1,200
Labor & Expenses	701	1,073
Fuel & Power Purchased for Pumping	703	1,125
Chemicals	704	100
Administrative & General Salaries	920	850
Office Supplies & Other Expenses	921	118
Miscellaneous General Expenses	930	231
Depreciation Expense	403	3,874
Taxes Other Than Income Taxes	408.1	<u>348</u>
Net Operating Expenses		\$ 8,919
Operating Income		<2,919>
<u>Other Deductions:</u>		
Other Interest Expense	431	<u><329></u>
NET INCOME		<u>\$<3,248></u>

Respectfully Submitted,



Tom Wells, Senior Public
Utilities Financial Analyst
PUBLIC SERVICE COMMISSION
Rates and Tariffs Division
Revenue Requirements Section