

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: November 20, 2019

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20190118-WU
Company Name: Lighthouse Utilities Company, Inc.
Company Code: WU533
Audit Purpose: A1f: File & Suspend Rate Case (PAA)
Audit Control No.: 2019-219-1-1

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, it should send a response to the Office of Commission Clerk. There are no confidential work papers associated with this audit.

LMD/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File.

State of Florida



Public Service Commission


Office of Auditing and Performance Analysis
Bureau of Auditing
Tallahassee District Office

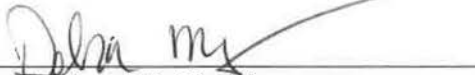
Auditor's Report

Lighthouse Utilities Company, Inc.
Rate Case (PAA)

Twelve Months Ended December 31, 2018

Docket No. 20190118-WU
Audit Control No. 2019-219-1-1
November 15, 2019


George Simmons
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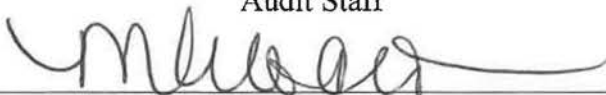

Marisa N. Glover
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated August 6, 2019. We have applied these procedures to the attached schedules prepared by Lighthouse Utilities Company, Inc. In support of its filing for rate relief in Docket No. 20190118-WU as filed on July 12, 2019.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Lighthouse/Utility refers to Lighthouse Utilities Company, Inc.

Test year refers to the twelve months ended December 31, 2018.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts as adopted by Rule 25-30.115 – Uniform Systems of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.)

Background

Lighthouse Utilities Company, Inc. is a Class B utility serving approximately 1,851 water customers in Gulf County. The test year established for final rates is the historical period ended December 31, 2018. Water rates were last established for the Utility by Order No. PSC-2011-0368-PAA-WU, issued September 1, 2011, in Docket No. 20100128-WU. Rate base was audited from December 31, 2009 through December 31, 2018. Audit staff used the original MFRs as filed with the Commission on July 12, 2019.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether utility plant in service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are authentic, recorded at original cost, and properly classified as a capital item in compliance with Commission rules and the NARUC USOA, 3) Retirements are made when a replacement item is put into service, and 4) Adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

Procedures: We reconciled the UPIS accounts in the filing to the general ledger. We determined the beginning balance for each account that was established by Order No. PSC-2011-0368-PAA-WU. We verified that the Commission ordered adjustments were posted to the general ledger. We scheduled utility additions and retirements since rate base was last established to determine the UPIS balance as of December 31, 2018. We traced additions and retirements to source documents and verified that additions were recorded at original cost and that retirements were properly posted. We recalculated the simple average balance for the filing. Our recommended adjustments to water plant in service are discussed in Finding 1.

The Utility did provide bids for plant reconstruction after Hurricane Michael to represent the proforma adjustment. We included them in the work papers, but did not test them.

Land & Land Rights

Objectives: The objectives were to determine whether utility land is recorded at original cost, is used for utility operation, and is owned or secured under a long-term lease.

Procedures: We reconciled the land accounts presented in the filing to the general ledger. We determined the beginning balance for each account that was established by Order No. PSC-2011-0368-PAA-WU. We determined the land balance as of December 31, 2018. We recalculated the simple average balance for the filing. We searched the property records of the County Clerk's Office in Gulf County, Florida for utility related activity. We noted that there were no changes to land since rate base was last established.

Contributions in Aid of Construction

Objectives: The objectives were to determine whether utility contributions in aid of construction (CIAC) balances are properly stated, are reflective of the service availability charges authorized in the Utility's Commission approved tariffs, and the adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We reconciled the CIAC accounts presented in the filing to the general ledger. We determined the beginning balance for each account that was established by Order No. PSC-2011-0368-PAA-WU. We verified whether the Utility included the Commission adjustments from the order. We scheduled utility additions and retirements since rate base was last established to determine the CIAC balances as of December 31, 2018. We traced the additions and retirements to source documents and traced the service availability charges to the Utility's approved tariffs. We reviewed CIAC agreements, and inquired about new special agreements, developer agreements, and donated property. We recalculated the simple average balance for the filing. Our recommended adjustments to water CIAC are discussed in Finding 3.

Accumulated Depreciation

Objectives: The objectives were to determine whether: 1) Accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USOA, 2) Depreciation accruals are calculated using the Commission's authorized rates and that retirements are properly recorded, and 3) Adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

Procedures: We reconciled the accumulated depreciations accounts presented in the filing to the general ledger. We determined the beginning balance for each account that was established by Order No. PSC-2011-0368-PAA-WU. We verified whether the Utility included the Commission adjustments from the order. We calculated the accumulated depreciation accruals using the rates authorized in Rule 25-30.140 – Depreciation, F.A.C. We schedule the accruals and retirements since rate base was last established to determine the accumulated depreciation balances as of December 31, 2018. We recalculated the simple average balance for the filing. Our recommended adjustments to water accumulated depreciation are discussed in Finding 2.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether accumulated amortization of CIAC balances were properly stated, that annual accruals were reflective of the depreciation rates and were in compliance with Commission rules and orders, and that the adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

Procedures: We reconciled the accumulated amortization of CIAC accounts presented in the filing to the general ledger. We determined the beginning balance for each account that was established by Order No. PSC-2011-0368-PAA-WU. We verified whether the Utility included the Commission adjustments from the order. We calculated accumulated amortization of CIAC accruals using the rates authorized in Rule 25-30.140, F.A.C. We scheduled the accruals since rate base was last established to determine the accumulated amortization of CIAC balances as of December 31, 2018. We recalculated the simple average balance for the filing. Our recommended adjustments to water accumulated amortization of CIAC are discussed in Finding 3.

Working Capital

Objectives: The objective was to determine whether the Utility's working capital balance is properly calculated in compliance with Commission rules.

Procedures: We verified the Utility's calculation of working capital as of December 31, 2018 using one-eighth of operation and maintenance (O&M) expense as required by Commission Rule 30.433(2), F.A.C. Our recommended adjustments to working capital are discussed in Finding 5.

Capital Structure

Objectives: The objectives were to determine whether the components of the Utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital were properly recorded in compliance with Commission rules and that it accurately represented the ongoing utility operations.

Procedures: Audit staff reconciled the components of the Utility's capital structure presented in the filing to the general ledger. We obtained a reconciliation of the adjustments to the capital structure and traced these to the MFRs and the general ledger. Our recommended adjustments to capital structure are discussed in Finding 4.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether: 1) Utility charges were those approved by the Commission in the Utility's current authorized tariff for both water and wastewater, and 2) Revenue earned from utility property during the test year was recorded and properly classified in compliance with Commission rules and the NARUC USOA.

Procedures: We reconciled the water revenue accounts presented in the filing to the general ledger. We reviewed a sample of customer accounts from the billing register for proper

customer classification, use of approved tariffs, and miscellaneous service charges. We sampled the Utility's revenue by multiplying the average consumption by the tariff rate for each customer class in the billing register. We reconciled gallons sold and customer bill counts presented in the filing to the billing register. No exceptions were noted.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether operation and maintenance (O&M) expenses were properly recorded in compliance with Commission rules, and were reasonable and prudent for ongoing utility operations.

Procedures: We reconciled the O&M expense accounts presented in the filing to the general ledger. We reviewed a sample of the O&M expense invoices for proper amount, period, classification, recurring nature, and whether the expense was utility related. Our recommended adjustments to O&M expense are discussed in Finding 5.

Depreciation and Amortization

Objectives: The objective was to determine whether depreciation was properly recorded in compliance with Commission rules and that it accurately represented the depreciation of UPIS assets and the amortization of utility CIAC assets for ongoing utility operations.

Procedures: We reconciled the depreciation and amortization expense accounts presented in the filing to the general ledger. We calculated depreciation and amortization expense for the test year using the rates prescribed in Rule 25-30.140, F.A.C. and compared our amounts to the amounts reflected in the filing. Our recommended adjustments to water depreciation and amortization expense are discussed in Findings 2 and 3.

Taxes Other than Income

Objectives: The objective was to determine the appropriate amounts for taxes other than income tax (TOTI) for the test year ended December 31, 2018.

Procedures: We reconciled the components of the TOTI tax expense accounts presented in the filing to the general ledger. We recalculated regulatory assessment fees (RAF) based on audited revenues. We traced real estate and tangible property taxes to source documents, and verified that these taxes included the maximum discount and are only for utility property. We tested and reconciled payroll taxes. Our recommended adjustments to Taxes Other Than Income are discussed in Finding 6.

Other

Analytical Review

Objectives: The objectives were to determine whether any account balances contained any information that could be deemed unusual, and to assist in assessing risk.

Procedures: Audit staff performed a cost comparison for rate base components and O&M expenses by account from 2015 to 2018 in order to compare percentage increases. We did not find any significant variances. No exceptions were noted.

Audit Findings

Finding 1: Utility Plant in Service

Audit Analysis: In the Minimum Filing Requirement (MFR) Schedule A-5 filed with the Commission on July 12, 2019, the Utility had a simple average balance of \$3,540,547 for water UPIS as of December 31, 2018. Audit staff determined the beginning balance for each account that was established by Order No. PSC-2011-0368-PAA-WU. We traced additions and retirements to source documents and verified that additions were recorded at original cost and that retirements were properly posted. We recalculated the simple average balance for the filing as shown in Table 1-1.

Table 1-1

Account - Description	MFR Balance	Audit	Audit Balance
	Schedule A-5		Simple Average
	Simple Average	Adjustments	Simple Average
	12/31/2018		12/31/2018
301 Organization	\$ 9,941	\$ -	\$ 9,941
303 Land	26,000	-	26,000
304 Structures & Improvements	203,852	(620)	203,232
307 Wells & Springs	224,009	-	224,009
309 Supply Mains	84,091	-	84,091
310 Power Generation Equip.	19,966	-	19,966
311 Pumping Equip.	288,569	7,957	296,526
320 Water Treatment Equip.	49,843	-	49,843
330 Distribution Reservoirs	310,047	-	310,047
331 Transmission and Distribution Mains	1,432,957	-	1,432,957
333 Services	389,190	(138,350)	250,840
334 Meters and Meter Install.	317,344	(6,061)	311,283
335 Hydrants	14,849	-	14,849
339 Other Plant and Misc Equipment	20,869	(320)	20,549
340 Office Furniture and Equipment	-	-	-
341 Transportation Equipment	109,410	-	109,410
343 Tools, Shop and Garage Equip	209	-	209
345 Power Operated Equip	16,500	-	16,500
348 Other Tangible Plant	22,901	(22,901)	-
Total:	\$ 3,540,547	\$ (160,295)	\$ 3,380,252

We scheduled utility additions and retirements since rate base was last established to determine the UPIS balance as of December 31, 2018 as shown in Table 1-2.

Table 1-2

Account - Description	MFR Balance Schedule A-5 Year-end		Utility GL Year-end Balance		Audit	Audit Year-end Balance
	12/31/2018	Variance	12/31/2018	Adjustments	12/31/2018	
301 Organization	\$ 9,941	\$ -	\$ 9,941	\$ -	\$ 9,941	
303 Land	26,000	-	26,000	-	26,000	
304 Structures & Improvements	36,420	-	36,420	(10,138)	26,282	
307 Wells & Springs	224,009	-	224,009	-	224,009	
309 Supply Mains	84,091	-	84,091	-	84,091	
310 Power Generation Equip.	19,966	-	19,966	-	19,966	
311 Pumping Equip.	288,569	-	288,569	13,224	301,793	
320 Water Treatment Equip.	49,843	-	49,843	-	49,843	
330 Distribution Reservoirs	310,047	-	310,047	-	310,047	
331 Transmission and Distribution Mains	1,458,728	-	1,458,728	-	1,458,728	
333 Services	412,140	(7,850)	404,290	(130,500)	273,790	
334 Meters and Meter Install.	338,015	-	338,015	(6,061)	331,954	
335 Hydrants	14,849	-	14,849	-	14,849	
339 Other Plant and Misc Equipment	30,540	-	30,540	(320)	30,220	
340 Office Furniture and Equipment	-	-	-	-	-	
341 Transportation Equipment	109,866	-	109,866	-	109,866	
343 Tools, Shop and Garage Equip	209	-	209	-	209	
345 Power Operated Equip	16,500	-	16,500	-	16,500	
348 Other Tangible Plant	22,901	-	22,901	(22,901)	-	
Total:	\$ 3,452,634	\$ (7,850)	\$ 3,444,784	\$ (156,696)	\$ 3,288,088	

The adjustments noted above, and the fallout adjustments to accumulated depreciation and depreciation expense, which are discussed in Finding 2, are as follows.

1. We decreased Account 304 – Structures and Improvements by \$10,138 (\$10,400 - \$19,038 - \$1,500). The Utility recorded an adjustment of (\$48,316) to record the Commission ordered adjustments (COAs). Audit staff determined that the beginning balance was understated by \$10,400. The Utility recorded the retirement of the plant structures destroyed by Hurricane Michael in the amount of \$338,280 and did not follow the NARUC accounting instructions. Audit staff determined that the retirement was understated by \$19,038. We also removed a plant addition of \$1,500 that was not supported.
2. We increased Account 311 – Pumping Equipment by \$13,224 (\$17,726 - \$17,248 + \$2,212 + \$10,534). The Utility recorded an adjustment of \$4,583 to record the COAs. Audit staff determined that the beginning balance was understated by \$17,726. The Utility didn't record retirements when plant assets were replaced. We calculated the retirements to be \$17,248 based on 75 percent of the cost of the new plant asset. We added an unrecorded plant addition of \$2,212 in 2012. We also added a pump upgrade in the amount of \$10,534 that was originally posted to O&M Account 636 – Contractual Services-Other in 2018.
3. We decreased Account 333 – Services by \$138,350 (\$7,850 + \$130,500). We increased the beginning balance by \$650 to agree with the COAs. We removed plant additions of \$139,000 that were not supported. The net effect is a decrease of \$138,350 (\$650 - \$139,000).

4. We decreased Account 334 – Meters and Meter Installations by \$6,061 (\$394 - \$6,455). Audit staff removed \$6,455 because the Utility recorded the approved proforma of \$6,455 twice. We added an unrecorded plant addition of \$394.
5. We decreased Account 339 – Other Plant and Miscellaneous Equipment by an unsupported addition of \$320.
6. We decreased Account 348 – Other Tangible Plant by \$22,901 for the permit renewals, which should be classified as deferred debits. We did not reclass the amortization expense to O&M expense because the permits are in the process of being renewed. We defer this issue to the analyst.

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: The water plant in service simple average balance should be decreased by \$160,295.

Finding 2: Accumulated Depreciation and Depreciation Expense

Audit Analysis: In the MFR Schedule A-9 filed with the Commission on July 12, 2019, the Utility had a simple average balance of \$1,808,062 for water accumulated depreciation as of December 31, 2018. Audit staff determined the beginning balance for each account that was established by Order No. PSC-2011-0368-PAA-WU. We calculated the accumulated depreciation accruals using the rates authorized in Rule 25-30.140 – Depreciation, F.A.C. and the adjusted UPIS balances as discussed in Finding 1. We recalculated the simple average balance for the filing as shown in Table 2-1.

Table 2-1

Account - Description	MFR Balance	Audit	Audit Balance
	Schedule A-9		Simple Average
	Simple Average	Adjustments	Simple Average
	12/31/2018		12/31/2018
301 Organization	\$ -	\$ 7,709	\$ 7,709
304 Structures & Improvements	100,648	(88,959)	11,689
307 Wells & Springs	131,684	34,383	166,067
309 Supply Mains	17,773	(146)	17,627
310 Power Generation Equip.	19,966	-	19,966
311 Pumping Equip.	241,075	(47,039)	194,036
320 Water Treatment Equip.	32,570	17,273	49,843
330 Distribution Reservoirs	124,158	38,211	162,369
331 Transmission and Distribution Mains	783,297	(72,138)	711,159
333 Services	57,661	(27,993)	29,668
334 Meters and Meter Install.	158,371	(14,617)	143,754
335 Hydrants	11,334	(2,327)	9,007
339 Other Plant and Misc Equipment	7,898	(186)	7,712
340 Office Furniture and Equipment	-	-	-
341 Transportation Equipment	85,284	(10,736)	74,548
343 Tools, Shop and Garage Equip	85	19	104
345 Power Operated Equip	16,500	-	16,500
348 Other Tangible Plant	19,758	(19,758)	-
Total:	\$ 1,808,062	\$ (186,304)	\$ 1,621,758

We scheduled the accruals and retirements since rate base was last established to determine the accumulated depreciation balances as of December 31, 2018 as shown in Table 2-2. The adjustments noted below are the result of the Utility over-depreciating assets, as well as the fallout adjustments related to the audit adjustments to the UPIS balances. In addition, we could not verify if the accumulated depreciation COAs were recorded as of the test year ended December 31, 2009 or as of the date when the adjustments were recorded in 2011.

Table 2-2

Account - Description	Utility GL	Variance	MFR Balance	Audit	Audit	Audit vs GL
	Year-end Balance		Schedule A-9		Year-end	
	12/31/2018		12/31/2018	Adjustments	12/31/2018	Adjustments
301 Organization	(A)		\$ -	\$ 7,834	\$ 7,834	
304 Structures & Improvements			27,305	(191,198)	(163,893)	
307 Wells & Springs			134,777	33,382	168,159	
309 Supply Mains			18,974	(145)	18,829	
310 Power Generation Equip.			19,966	-	19,966	
311 Pumping Equip.			243,239	(43,993)	199,246	
320 Water Treatment Equip.			33,539	16,304	49,843	
330 Distribution Reservoirs			127,915	38,644	166,559	
331 Transmission and Distribution Mains			805,008	(77,188)	727,820	
333 Services			62,526	(29,723)	32,803	
334 Meters and Meter Install.			165,922	(14,386)	151,536	
335 Hydrants			11,706	(2,533)	9,173	
339 Other Plant and Misc Equipment			8,242	(261)	7,981	
340 Office Furniture and Equipment			-	-	-	
341 Transportation Equipment			91,395	(10,736)	80,659	
343 Tools, Shop and Garage Equip			91	20	111	
345 Power Operated Equip			16,500	-	16,500	
348 Other Tangible Plant			21,137	(21,137)	-	
Total:	\$ 1,787,349	\$ 893	\$ 1,788,242	\$ (295,116)	\$ 1,493,126	\$ (294,223)

(A) The Utility does not itemize accumulated depreciation by the plant accounts in the general ledger.

In the MFR Schedule B-13 filed with the Commission on July 12, 2019, the Utility had a balance of \$107,644 for water depreciation expense. We calculated depreciation expense using the rates authorized in Rule 25-30.140 – Depreciation, F.A.C. and the adjusted UPIS balances as discussed in Finding 1. We determined depreciation expense for the twelve months ended December 31, 2018 as shown in Table 2-3.

Table 2-3

Account - Description	MFR Balance	Audit	Audit Balance
	Schedule B-13	Adjustments	12/31/2018
	12/31/2018		12/31/2018
301 Organization	\$ -	\$ 249	\$ 249
304 Structures & Improvements	601	5,750	6,351
307 Wells & Springs	6,186	(2,003)	4,183
309 Supply Mains	2,403	-	2,403
310 Power Generation Equip.	-	-	-
311 Pumping Equip.	4,327	6,093	10,420
320 Water Treatment Equip.	1,938	(1,938)	-
330 Distribution Reservoirs	7,514	866	8,380
331 Transmission and Distribution Mains	43,423	(10,098)	33,325
333 Services	9,730	(3,459)	6,271
334 Meters and Meter Install.	15,101	463	15,564
335 Hydrants	742	(412)	330
339 Other Plant and Misc Equipment	689	(151)	538
340 Office Furniture and Equipment	-	-	-
341 Transportation Equipment	12,222	-	12,222
343 Tools, Shop and Garage Equip	10	3	13
345 Power Operated Equip	-	-	-
348 Other Tangible Plant	2,758	(2,758)	-
Total:	\$ 107,644	\$ (7,395)	\$ 100,249

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: The water accumulated depreciation simple average balance should be decreased by \$186,304 and water depreciation expense should be decreased by \$7,395.

Finding 3: Contributions in Aid of Construction, Accumulated Amortization of CIAC, and Amortization Expense

Audit Analysis: In the MFR Schedule A-12 filed with the Commission on July 12, 2019, the Utility had a simple average balance of \$2,482,733 for water CIAC as of December 31, 2018. In the MFR Schedule A-14 filed with the Commission on July 12, 2019, the Utility had a simple average balance of \$1,243,859 for water accumulated amortization of CIAC as of December 31, 2018. Audit staff determined the beginning balance for each account that was established by Order No. PSC-2011-0368-PAA-WU. We traced additions and retirements to source documents and noted that not all of the additions were supported. We recalculated the simple average balances for the filing as shown in Table 3-1.

Table 3-1

	MFR Balance Schedule A-12 Simple Average	Audit	Audit Balance Simple Average
Account - Description	12/31/2018	Adjustments	12/31/2018
CIAC	\$ (2,482,733)	\$ 41,751	\$ (2,440,982)

	MFR Balance Schedule A-14 Simple Average	Audit	Audit Balance Simple Average
Account - Description	12/31/2018	Adjustments	12/31/2018
Accumulated Amortization of CIAC	\$ 1,243,859	\$ (5,917)	\$ 1,237,942

We also scheduled utility additions and retirements since rate base was last established to determine the CIAC and accumulated amortization of CIAC balances as of December 31, 2018. We traced additions and retirements to source documents and noted that additions of \$48,601 (\$125 + \$48,476) were not supported. The fallout adjustment to accumulated amortization of CIAC is a decrease of \$6,675. In the MFR Schedule B-13 filed with the Commission on July 12, 2019, the Utility had a balance of \$75,210 for water amortization expense. We calculated amortization expense using the composite rate brought forward from the last rate case and the adjusted CIAC balance. We determined amortization expense to be decreased by \$1,516 for the twelve months ended December 31, 2018 as shown in Table 3-2.

Table 3-2

Account - Description	MFR Balance Schedule A-12 Year-end		Utility GL Year-end Balance		Audit	Audit Year-end Balance
	12/31/2018	Variance	12/31/2018	Adjustments	12/31/2018	
CIAC	\$ (2,551,833)	\$ 125	\$ (2,551,708)	\$ 48,476	\$ (2,503,232)	

Account - Description	MFR Balance Schedule A-14 Year-end		Utility GL Year-end Balance		Audit	Audit Year-end Balance
	12/31/2018	Variance	12/31/2018	Adjustments	12/31/2018	
Accumulated Amortization of CIAC	\$ 1,281,464	\$ -	\$ 1,281,464	\$ (6,675)	\$ 1,274,789	

Account - Description	MFR Balance Schedule B-13 Year-end		Utility GL Year-end Balance		Audit	Audit Year-end Balance
	12/31/2018	Variance	12/31/2018	Adjustments	12/31/2018	
Amortization Expense	\$ (75,210)	\$ -	\$ (75,210)	\$ 1,516	\$ (73,694)	

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: The water CIAC simple average balance should be decreased by \$41,751, the water accumulated amortization of CIAC simple average balance should be decreased by \$5,917, and water amortization expense should be decreased by \$1,516.

Finding 4: Capital Structure

Audit Analysis: In the MFR Schedule D-4 filed with the Commission on July 12, 2019, the Utility had a simple average balance of \$843,383 for the average cost of short-term debt as of December 31, 2018. As of November 12, 2019, the Utility has not provided any promissory notes or any loan documentation for the purpose of these loans. Audit staff noted there are five different lenders listed in the short term debt. According to the utilities' documentation these lenders are listed as directors. Audit staff was unable to determine the start date of the loan, the maturity date, or the interest rate of the loans.

Effect on the General Ledger: To be determined by the Utility.

Effect on the Filing: Audit staff defers this issue to the Analyst.

Finding 5: Operations and Maintenance Expense

Audit Analysis: The objective is to determine whether 2018 operation and maintenance expenses are properly recorded in compliance with the USOA and represent ongoing utility operations. In the MFR Schedule B-5 filed with the Commission on July 12, 2019, the Utility had a total annual balance of \$648,650 for operation and maintenance expenses as of December 31, 2018. Please see Table 5-1 for audit staff's adjustments. Expenses that were due to Hurricane Michael were identified and removed as non-recurring.

Table 5-1

Acct. Nos.	Acct. Description	MFR Schedule B-5	MFR B-3 Adj	Adj Test Year	Audit Adjustment	Per Audit
601	Salaries & Wages - Employees	\$ 143,479		\$ 143,479	\$ (3,242)	\$ 140,237
603	Salaries & Wages - Officers	\$ 130,408		\$ 130,408	\$ -	\$ 130,408
604	Employee Pension & Benefits	\$ 20,994		\$ 20,994	\$ (1,186)	\$ 19,808
610	Purchased Water	\$ 10,901		\$ 10,901	\$ 0	\$ 10,901
615	Purchased Power	\$ 51,649		\$ 51,649	\$ (0)	\$ 51,649
618	Chemicals	\$ 6,884		\$ 6,884	\$ (989)	\$ 5,895
620	Materials & Supplies	\$ 74,137		\$ 74,137	\$ (11,215)	\$ 62,922
631	Contractual Services - Eng.	\$ -		\$ -	\$ -	\$ -
632	Contractual Services - Acct	\$ 50,942		\$ 50,942	\$ (1,000)	\$ 49,942
633	Contractual Services - Legal	\$ 22,615		\$ 22,615	\$ -	\$ 22,615
634	Contractual Services - Mgmt. Fees	\$ -		\$ -	\$ -	\$ -
635	Contractual Services - Testing	\$ 5,045		\$ 5,045	\$ (120)	\$ 4,925
636	Contractual Services - Other	\$ 61,021		\$ 61,021	\$ (21,630)	\$ 39,391
641	Rental of Building	\$ 14,625		\$ 14,625	\$ -	\$ 14,625
642	Rental of Equipment	\$ -		\$ -	\$ -	\$ -
650	Transportation Expenses	\$ 22,648		\$ 22,648	\$ -	\$ 22,648
656	Insurance - Vehicle	\$ 2,779		\$ 2,779	\$ -	\$ 2,779
657	Insurance - General Liability	\$ 1,438		\$ 1,438	\$ 5,489	\$ 6,927
658	Insurance -Workman's Company	\$ 10,136		\$ 10,136	\$ -	\$ 10,136
659	Insurance - Other	\$ 10,672		\$ 10,672	\$ (10,672)	\$ -
660	Advertising Expense	\$ 3,101		\$ 3,101	\$ -	\$ 3,101
666	Reg. Commission Expense - Rate Case Amort.	\$ -	\$ 23,638	\$ 23,638	\$ -	\$ 23,638
667	Reg. Commission Expense - Other	\$ -		\$ -	\$ -	\$ -
670	Bad Debt Expense	\$ -		\$ -	\$ -	\$ -
675	Miscellaneous Expense	\$ 5,176		\$ 5,176	\$ 595	\$ 5,771
Total		\$ 648,650	\$ 23,638	\$ 672,288	\$ (43,969)	\$ 628,319

Working Capital **\$ 78,540**

In Account 601 – Salaries & Wages – Employees, the MFR Schedule B-5 has a balance of \$143,479. Audit staff removed \$3,242 for overtime worked by Matthew Pope related to the Hurricane Michael expenses for recovery.

In Account 604 – Employee Pension & Benefits, the MFR Schedule B-5 has a balance of \$20,994. Audit staff could only trace \$19,808 to the general ledger and supporting documentation. We removed \$1,186 to reflect lack of supporting documentation.

In Account 618 – Chemicals, the MFR Schedule B-5 has a balance of \$6,884. Audit staff removed \$990 for a USA Bluebook invoice related to Hurricane Michael expenses.

In Account 620 – Materials and Supplies, MFR Schedule B-5 has a balance of \$74,137. The Utility provided documentation that supports \$74,696 that relates to materials and supplies. Audit staff increased this account by \$559 to reflect supporting documentation. We then removed \$11,774 for ten invoices relating to Hurricane Michael expenses. Audit staff recommends that this account be decreased \$11,215 (\$559 - \$11,774).

In Account 632 – Contractual Services – Accounting, MFR Schedule B-5 has a balance of \$50,942. Audit staff removed \$1,000 from an invoice provided by Roberson & Associates for work performed outside the test year in December 2017.

In Account 635 – Contractual Services – Testing, the MFR Schedule B-5 has a balance of \$5,045. Audit staff removed \$120 for a water sampling invoice from The Water Spigot Inc. related to Hurricane Michael expenses.

In Account 636 – Contractual Services - Other, MFR Schedule B-5 has a balance of \$61,021. The Utility provided documentation that supports \$62,223 that relates to contractual services. Audit staff increased this account by \$1,202 to reflect supporting documentation. We then removed \$12,298 for six invoices related to Hurricane Michael expenses. Audit staff also reclassified a Kenny Strange invoice in the amount of \$10,534 for a pump upgrade to be capitalized in plant account 311 – Pumping Equipment. We recommend that this account be decreased by \$21,630 (\$1,202 - \$12,298 - \$10,534).

In Account 657 – Insurance – General Liability, MFR Schedule B-5 has a balance of \$1,438. Audit staff removed \$625 for Directors & Officers Liability for AEPA Insurance for lack of support. We removed \$813 from MFR Schedule B-5 that reflected one month's payment of insurance. Audit staff reviewed the Auto Owner's General Liability insurance policy for the plant which shows an annual policy in the amount of \$6,927. We increased this account by \$5,489 to annualize the insurance policy.

In Account 659 – Insurance – Other, MFR Schedule B-5 has a balance of \$10,672. The Utility did not provide supporting documentation, Audit staff removed \$10,672 from this account.

In Account 675 – Miscellaneous Expense, MFR Schedule B-5 has a balance of \$5,176. The Utility provided documentation that supports \$5,771 that relates to Miscellaneous Expense. Audit staff increased this account by \$595 to reflect supporting documentation.

Audit staff did not audit Account 666 – Regulatory Commission Expense – Rate Case Amortization. We defer this issue to the Analyst.

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Operations & Maintenance Expense should be decreased by \$43,969. Working Capital is one-eighth of O&M Expense; therefore Working Capital is \$78,540.

Finding 6: Taxes Other than Income

Audit Analysis: The objective is to reconcile property taxes, payroll taxes, gross receipts tax, regulatory assessment fees, and any other taxes other than income (TOTI) to the general ledger and the MFRs. Audit staff traced MFR Schedule B-15 to the general ledger and supporting schedules. We also created a schedule that reflects the Utility amounts versus the recalculated auditor’s balance for the total taxes other than income. Audit staff determined the Regulatory Assessment Fees to be \$32,791 compared to the MFR Schedule B-15 balance of \$34,085. The Utility made a \$1,294 adjustment to the RAF in January 2019. On MFR Schedule B-15, the Utility has a balance of \$1,216 for Taxes - Other. Audit staff also removed \$1,000 from Taxes-Other to reflect a filing fee for the current rate case. Please see Table 6-1.

Table 6-1

Water			
Description	For the 12 Month Test Year Ended 12/31/18		
	Per Utility	Adjustments	Per Audit
Real Estate & Property Tax	\$ 14,619	\$ -	\$ 14,619
Payroll Tax	\$ 16,818	\$ -	\$ 16,818
Regulatory Assessment Fees (RAF)	\$ 34,085	\$ (1,294)	\$ 32,791
Other	\$ 1,216	\$ (1,000)	\$ 216
Total	\$ 66,738	\$ (2,294)	\$ 64,444

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Taxes Other Than Income should be decreased by \$2,294.

Exhibits

Exhibit 1: Rate Base

Schedule of Water Rate Base

Florida Public Service Commission

Company: Lighthouse Utilities Company, Inc
 Docket No.: 20190118-WU
 Schedule Year Ended: December 31, 2018
 Interim Final
 Historical Projected

Schedule: A-1
 Page 1 of 1
 Preparer: Michael D McKenzie, CPA

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Adjustments	(4) Adjusted Utility Balance	(5) Supporting Schedule(s)
1	Utility Plant In Service	3,540,547	-	3,540,547	A-5
2	Utility Land & Land Rights	-	-	-	A-5
3	Less: Non-Used & Useful Plant	-	-	-	A-7
4	Construction Work in Progress	-	-	-	.
5	Less: Accumulated Depreciation	(1,808,062)	-	(1,808,062)	A-8
6	Less: CIAC	(2,482,733)	-	(2,482,733)	A-12
7	Accumulated Amortization of CIAC	1,243,859	-	1,243,859	A-14
8	Acquisition Adjustments	-	-	-	.
9	Accum Amort of Acq Adjustments	-	-	-	.
10	Advances For Construction	-	-	-	A-16
11	Working Capital Allowance	81,081	-	81,081	A-17
12	Total Rate Base	574,691	-	574,691	

Exhibit 2: Net Operating Income

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Lighthouse Utilities Company, Inc.
 Schedule Year Ended: December 31, 2018
 Interim [] Final [X]
 Historic [X] or Projected []

Schedule: B-1
 Page 1 of 1
 Docket No: 20180118-WU
 Preparer: Michael D McKenzie CPA

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	728,696	(29,148) (D)	699,548	155,660 (A)	855,108	B-4
2	Operation & Maintenance	648,651	23,838 (B)	672,289	-	672,289	B-6
3	Depreciation, net of CIAC Amort	32,434	-	32,434	-	32,434	B-13
4	Amortization	-	-	-	-	-	
5	Taxes Other Than Income	66,738	-	66,738	7,004 (C)	73,742	B-15
6	Provision for Income Taxes	-	-	-	-	-	C-1
7	OPERATING EXPENSES	<u>747,823</u>	<u>23,838</u>	<u>771,460</u>	<u>7,004</u>	<u>778,464</u>	
8	NET OPERATING INCOME	<u>\$ (19,127)</u>	<u>\$ (52,785)</u>	<u>\$ (71,912)</u>	<u>\$ 148,646</u>	<u>\$ 78,734</u>	
9	RATE BASE	574,691	393,600 (E)	958,291		958,291	A-1
10	RATE OF RETURN	-3.33%		-7.50%		8.01%	D-1

(A) Reference Schedule B-3 for explanation

(B) Reference Schedule B-3 for explanation

(C) Reference Schedule B-3 for explanation

(D) The Utility suffered a 4% decrease in customers solely due to storm damage that occurred during October 2018, equating to 70 metered customers.

(E) Reference Engineer's Cost Opinion for Hurricane Michael Emergency DBP Improvements required under Consent Order

Exhibit 3: Capital Structure

Reconciliation of Capital Structure to Requested Rate Base
Beginning and End of Year Average

Florida Public Service Commission

Company: Lighthouse Utilities Company, Inc
Docket No.: 20190118-WU
Test Year Ended: December 31, 2018
Schedule Year Ended: December 31, 2018
Historic [X] or Projected []

Schedule: D-2
Page 1 of 1
Preparer: Michael D. McKenzie, CPA

Explanation: Provide a reconciliation of the simple average capital structure to requested rate base.
Explain all adjustments. Submit an additional schedule if a year-end basis is used.

Line No.	(1) Class of Capital	(2) Test Year Per Books	(3) Specific	(4) Reconciliation Adjustments		(5) Reconciled To Requested Rate Base
				(Explain)	Prorata *	
1	Long-Term Debt	-	-		0.00%	-
2	Short-Term Debt	843,383	(401,976)		100.00%	858,704
3	Preferred Stock	-	-		0.00%	-
4	Common Equity	(401,976)	401,976		0.00%	-
5	Customer Deposits	-	-		0.00%	-
6	Tax Credits - Zero Cost	-	-		0.00%	-
7	Tax Credits - Wtd. Cost	-	-		0.00%	-
8	Accum. Deferred Income Tax	-	-		0.00%	-
9						
10	Total	441,407	-		100.00%	858,704
11						
12	* List corresponding adjustments to rate base below.					
13						
14						
15	Description				Amount	
16						
17						
18	To adjust common equity to rate base percentage (344,000-350,558)			\$	401,976	
19	To adjust short term debt portion to rate base percentage (824,289-840,000)				15,321	

Requested Rate Base per Schedule B-1: 858,704

Supporting Schedules: A-19, C-7, C-8, D-3, D-4, D-5, D-7
Recap Schedules: D-1