

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-**

CLERK

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**DATE:** October 18, 2010  
**TO:** Martha Golden, Regulatory Supervisor/Consultant, Division of Economic Regulation  
**FROM:** Clarence Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *eP*  
**RE:** Docket No.: 090424-WS  
Company Name: Bimini Bay Utilities  
Company Code: WS932  
Audit Purpose: Application To Receive Water and Wastewater Certificates  
Audit Control No: 10-196-2-1

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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 a response to me at the above address. There were no confidential work papers associated with this audit.

CP/ip

Attachment: Audit Report

cc: (With Attachment)  
Office of Auditing and Performance Analysis (Mailhot, Prestwood, File Folder)  
Office of the General Counsel

(Without Attachment)  
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER DATE

08717 OCT 19 2010

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State Of Florida



**PUBLIC SERVICE COMMISSION**

**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
BUREAU OF AUDITING**

**TAMPA DISTRICT OFFICE**

**AUDITOR'S REPORT**

**BIMINI BAY UTILITIES CORPORATION**

**APPLICATION TO RECEIVE WATER AND WASTEWATER CERTIFICATES**

**HISTORICAL YEAR ENDED JUNE 30, 2010**

**DOCKET NO. 090424-WS  
AUDIT CONTROL NO. 10-196-2-1**

A handwritten signature in cursive script, appearing to read "Tomer".

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Tomer Kopelovich, Audit Manager

A handwritten signature in cursive script, appearing to read "Linda Hill-Slaughter".

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Linda Hill-Slaughter, Tampa District Supervisor

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**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
AUDITOR'S REPORT**

**SEPTEMBER 20, 2010**

**TO: FLORIDA PUBLIC SERVICE COMMISSION**

**PURPOSE**

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated July 15, 2010. We have applied these procedures to the attached schedules prepared by the audit staff for the 12 month period ending June 30, 2010, in support of the Bimini Bay Utilities Corporation application for certificates to provide water and wastewater in Polk County in Docket No. 090424-WS.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures and the report is intended only for internal Commission use.

## OBJECTIVES AND PROCEDURES

### GENERAL

**Objective:** To determine that the Bimini Bay Utility Corporation (the Utility) maintains its accounts and records in conformity with the 1996 National Association of Regulatory Utility Commissioners Uniform System of Accounts (NARUC USoA).

**Procedure:** We reviewed the Utility's chart of accounts and concluded that the Utility is not in conformity with the 1996 NARUC USoA with respect to its accounts: Utility Plant in Service, Accumulated Depreciation, Depreciation Expense, Deferred Income Taxes, CIAC and Accumulated CIAC. This is discussed in Audit Finding 1.

### RATE BASE

#### UTILITY PLANT IN SERVICE (UPIS)

**Objectives:** To determine that property exists and is owned by the Utility. To verify additions are authentic, recorded at original cost, and properly classified as a capital item in compliance with Commission Rules and Uniform System of Accounts. To verify that the proper retirements were made when a replacement item was put in service. To determine that the land is owned by the Utility and included in the rate base at original cost.

**Procedure:** We were unable to perform the above objective. This is discussed in Audit Finding 1.

#### CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)

**Objectives:** To test CIAC additions and adjustments. To verify that CIAC additions are reflective of the Utility's Commission approved service availability tariff.

**Procedure:** We were unable to perform the above objectives. Audit Finding 1 addresses this issue.

#### ACCUMULATED DEPRECIATION

**Objective:** To verify that accumulated depreciation and depreciation expense are calculated using the Commission authorized rates and that the calculations are correct.

**Procedure:** We were unable to perform the above objective. Audit Finding 1 addresses this issue.

## **ACCUMULATED AMORTIZATION OF CIAC**

**Objectives:** To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules. To verify that CIAC amortization expense accruals are properly recorded and calculated by applying annual depreciation composite rates.

**Procedure:** We were unable to perform the above objective. Audit Finding 1 addresses this issue.

## **WORKING CAPITAL**

**Objective:** To determine the working capital allowance.

**Procedure:** We determined the working capital allowance by using 1/8 of operation and maintenance expenses methodology. See Exhibit 1.

## **REVENUES AND EXPENSES**

### **Revenues**

**Objective:** To verify that revenues earned during the test year are properly recorded.

**Procedures:** We tested revenue transactions by comparing the general ledger to the meter log. We multiplied the rate by volumes to determine test year revenues. We compiled revenues following a billing report summary on a monthly basis and traced it to the general ledger. See Exhibit 2.

### **Expenses**

**Objectives:** Sample test year operation and maintenance expense accounts. Examine the expense for the proper period, amount, classification, support documentation and whether non-Utility related, non-recurring, or unreasonable.

**Procedures:** We tested 100% of the general ledger expenses. We reviewed the accounts for proper amount, classification and period. We examined invoices and supporting documentation to determine if the above objectives were met. We examined and listed all miscellaneous expenses. Included in the expense amount were invoices for items that should have been capitalized, as well as unsupported items and other adjustments. Audit Finding 2 addresses these adjustments. See Exhibit 2 for test year expenses.

**Objective:** To provide the number of hours per month that employees and/or contracted vendors spend on operating, billing, testing, maintenance, and general management activities.

**Procedure:** We reviewed a schedule provided by the Utility showing the basis for allocating total payroll for each employee and job description including time spent on each task during the test year. No exceptions were noted.

**Objective:** To note expense areas where the Utility has no costs assigned, but where benefits to the Utility are evident.

**Procedure:** We discussed this issue with Utility management. Based on these discussions and our observations, we found no unrecorded costs.

## **CAPITAL STRUCTURE**

**Objective:** To determine that the capital structure represents the Utility's debt, capital stock, retained earnings, deferred taxes, customer deposits and other funds available for investment in Utility plant and operations.

**Procedure:** The Utility had only retained earnings on its books and customer deposits. See Finding 4 and Exhibit 3.

## Audit Finding 1

### Subject: Rate Base

**Audit Analysis:** The Utility recorded Utility Plant In Service in a single account beginning February 2003 to present. The beginning balance in February 2003 for both water and wastewater was \$0. At June 30, 2010, the balance in Utility Plant In Service was \$298,174 for water and \$1,115,865 for wastewater. During the period from February 2003 through June 30, 2010, the Utility did not record any retirements. The Utility did not record any plant additions or retirements in 2008, 2009, or the six months ended June 30, 2010.

In addition, the Utility has not calculated depreciation on its Utility Plant in Service account. The Utility has not separated its total Plant in Service into the various detail plant accounts in its general ledger as required by the NARUC USoA. According to the Utility, in June 2009 there was a fire that destroyed its administration building that resulted in the loss of the Utility's books and records. Therefore we were unable to substantiate the amounts for Plant in Service, Accumulated Depreciation, Depreciation Expense, and Deferred Income Taxes for water and wastewater. We were also unable to calculate the amount of CIAC amortization and accumulated amortization of CIAC for water and wastewater.

In addition, we requested supporting documents that show how depreciation was calculated on Form 4562 on the 1120S tax return. We did not receive the requested information.

The Utility's rate base cannot be substantiated due to the lack of detail records referred to above. Therefore this matter is being referred to the analyst to determine the appropriate steps to determine rate base

#### WATER UPIS

Year	Additions	Balance
2002	0	0
2003	412	412
2004	8,001	8,413
2005	10,829	19,242
2006	173,465	192,707
2007	105,467	298,174
2008	0	298,174
2009	0	298,174
2010	0	298,174



**WASTEWATER UPIS**

<b>Year</b>	<b>Additions</b>	<b>Balance</b>
2002	0	0
2003	4,213	4,213
2004	61,731	65,944
2005	15,078	81,021
2006	932,060	1,013,081
2007	102,783	1,115,864
2008	0	1,115,864
2009	0	1,115,864
2010	0	1,115,864

**EFFECT ON THE RATE CASE:** To be determined.

**EFFECT ON GENERAL LEDGER:** To be determined.

**Audit Finding 2**

**Subject: Operation and Maintenance Expenses**

**Audit Analysis:** The Utility recorded Operation and Maintenance Expenses in the amount of \$61,218 for water and \$105,091 for wastewater. The Operation and Maintenance Expenses accounts were overstated in the amount of \$1,684 for water and \$1,643 for wastewater.

Accounts No. 665 and 765 Regulatory Commission Expenses

The Utility included the filing fee with the Florida Public Service Commission of \$1,500 as Regulatory Commission Expenses during the 12 months ending June 30, 2010. The filing fee of \$1,500 should be amortized over a four year period. Therefore, we reduced the water account 665 and wastewater account 765 by \$562 each. This results in the Regulatory Commission Expense of \$188 for water and \$188 for wastewater for ratemaking purposes.

Account No. 675 and 775 Miscellaneous Expenses

The Utility included license fees in the amount of \$271 in Miscellaneous Expenses for water and \$230 for wastewater in the 12 months ended June 30, 2010. We reclassified these expenses to Taxes Other than Income. Also, the Utility included late charges for purchased water and wastewater in the amount of \$851 for water and wastewater, respectively. We excluded those amounts from Operation and Maintenance Expenses.

**SUMMARY OF O&M EXPENSES - WATER**

ACCT NO.	DESCRIPTION	PER BOOK	ADJUSTMENT PER AUDIT	AMOUNT
601	Salaries and Wages - Employees	13,428	0	13,428
603	Salaries and Wages - Management	5,592	0	5,592
610	Purchased Water	27,537	0	27,537
620	Materials and Supplies	29	0	29
640	Rent	4,200	0	4,200
665	Regulatory Commission Expenses	750	(562)	188
670	Bad Debt Expense	6,127	0	6,127
675	Miscellaneous Expenses	3,555	(1,122)	2,432
	<b>TOTAL</b>	<b>61,218</b>	<b>(1,684)</b>	<b>59,533</b>

**SUMMARY OF O&M EXPENSES - WASTEWATER**

ACCT NO.	DESCRIPTION	PER BOOK	ADJUSTMENT PER AUDIT	AMOUNT
701	Salaries and Wages - Employees	14,145	0	14,145
703	Salaries and Wages - Management	5,592	0	5,592
710	Purchased Water	77,005	0	77,005
720	Materials and Supplies	29	0	29
740	Rent	4,200	0	4,200
765	Regulatory Commission Expenses	750	(562)	188
770	Bad Debt Expense	979	0	979
775	Miscellaneous Expenses	2,391	(1,081)	1,310
	<b>TOTAL</b>	<b>105,091</b>	<b>(1,643)</b>	<b>103,449</b>

**EFFECT ON THE RATE CASE:** Reduces water accounts 665 and 675 by \$562 and \$1,122, respectively. Also, reduces wastewater accounts 765 and 775 by \$562 and \$1,081, respectively. The total reduction in O&M Expenses is \$1,684 and \$1,643 for water and waste water, respectively. The effect on Taxes Other Than Income Taxes (TOTI) of the reclassifications is included in Audit Finding 3.

**EFFECT ON THE GENERAL LEDGER:** The following entries should be made:

Water	<u>Debit</u>	<u>Credit</u>
408 Taxes Other Than Income	\$271	
426 Misc. Nonutility Expenses	\$851	
186 Misc. Deferred Debits	\$562	
665 Regulatory Commission Expenses		\$ 562
675 Misc. Expenses		\$1,122
 Wastewater	 <u>Debit</u>	 <u>Credit</u>
408 Taxes Other Than Income	230	
426 Misc. Nonutility Expenses	851	
186 Misc. Deferred Debits	562	
765 Regulatory Commission Expenses		\$ 562
775 Misc. Expenses		\$1,081

### Audit Finding 3

#### Subject: Taxes Other Than Income

**Audit Analysis:** The Utility did not record any Regulatory Assessment Fees for the 12 month period ending June 30, 2010.

The audited revenue for the test period was \$25,448 for water and \$68,617 for wastewater. Therefore, we calculated the Regulatory Assessment Fee to be \$1,145 for water and \$3,088 for wastewater.

We also increased Taxes Other Than Income by \$271 for water and \$230 for wastewater to reflect licensing fees recorded as Miscellaneous Expenses (Audit Finding 2).

**EFFECT ON THE RATE CASE:** The Utility's Taxes Other Than Income Taxes should be increased by \$1,416 and \$3,318 for water and wastewater, respectively. These amounts include the license fees of \$271 and \$230 for water and wastewater, respectively that were reclassified from Miscellaneous Expenses in Audit Finding 2.

#### **EFFECT ON GENERAL LEDGER:**

In addition to the entries to Taxes Other Than Income Taxes in Audit Finding 2, the following adjustments should be made

#### WATER

<u>Account No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
408	Regulatory Assessment Fees	\$1,145	
236	Accrued Taxes		\$1,145

#### WASTEWATER

<u>Account No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
408	Regulatory Assessment Fees	\$3,088	
236	Accrued Taxes		\$3,088

#### **Audit Finding 4**

##### **Subject: Capital Structure**

**Audit Analysis :** The Utility did not record capital stock on its balance sheet since its inception in August 2007. As a result, we were unable to calculate capital structure. According to a Utility representative, it was a clerical oversight and it will be corrected.

**EFFECT ON THE RATE CASE:** Can not be determined.

**EFFECT ON GENERAL LEDGER:** Can not be determined.

EXHIBIT 1

BIMINI BAY  
RATE BASE  
WATER AND WASTEWATER

WATER

	PER BOOKS		PER AUDIT*
	6/30/2010	DIFFERENCE	6/30/2010
UTILITY PLANT IN SERVICE	1,115,865	(1,115,865)	0
ACCUMULATED DEPRECIATION	0	0	0
CIAC	0	0	0
AMORTIZATION OF CIAC	0	0	0
WORKING CAPITAL	7,652	(211)	7,442
NET RATE BASE	1,123,517	(1,116,076)	

WASTEWATER

	PER BOOKS		PER AUDIT*
	6/30/2010	DIFFERENCE	6/30/2010
UTILITY PLANT IN SERVICE	298,174	(298,174)	0
ACCUMULATED DEPRECIATION	0	0	0
CIAC	0	0	0
AMORTIZATION OF CIAC	0	0	0
WORKING CAPITAL	13,137	(205)	12,931
NET RATE BASE	298,174	(298,174)	

\*The only component of rate base that could be verified by staff was working capital.

## EXHIBIT 2

**BIMINI BAY  
NET OPERATING INCOME  
WATER AND WASTEWATER**

<b>WATER</b>				
DESCRIPTION	REF	TEST YEAR PER BOOKS (ACTUAL)	AUDIT ADJUST	AUDITED BALANCE
OPERATING REVENUES	41	25,448	(0)	25,448
OPERATING EXPENSES			0	
OPERATION AND MAINTENANCE EXPENSE	43	61,218	(1,685)	59,533
DEPRECIATION EXPENSE	51	0	0	0
AMORTIZATION EXPENSE	51	0	0	0
TAXES OTHER THAN INCOME	53	0	1,417	1,417
TOTAL OPERATING EXPENSES		61,218	(269)	60,950
NET OPERATING INCOME/LOSS		(35,770)	268	(35,502)

<b>WASTEWATER</b>				
DESCRIPTION	REF	TEST YEAR PER BOOKS (ACTUAL)	AUDIT ADJUST	AUDITED BALANCE
OPERATING REVENUES	41	68,617	(0)	68,617
OPERATING EXPENSES			0	
OPERATION AND MAINTENANCE EXPENSE	43	105,092	0	105,092
DEPRECIATION EXPENSE	51	0	0	0
AMORTIZATION EXPENSE	51	0	0	0
TAXES OTHER THAN INCOME	53	0	3,318	3,318
TOTAL OPERATING EXPENSES		105,092	3,318	108,410
NET OPERATING INCOME/LOSS		(36,475)	(3,318)	(39,793)

EXHIBIT 3

BIMINI BAY  
CAPITAL STRUCTURE\*  
WATER AND WASTEWATER

DESCRIPTION	BALANCE PER T/B 07/01/09	BALANCE PER T/B 06/30/10	SIMPLE AVG PER T/B	AUDIT ADJUST.	BALANCE PER AUDIT 06/30/10	SIMPLE AVG PER AUDIT	RATIO	COST RATE	WEIGHTED COST OF CAPITAL
COMMON EQUITY	-	-	-	-	-	-	-	-	-
COMMON STOCK	-	-	-	-	-	-	-	-	-
RETAINED EARNINGS	-	-	-	-	-	-	-	-	-
PD IN CAPITAL	-	-	-	-	-	-	-	-	-
CUSTOMER DEPOSITS	6,036	13,831	9,934	0	13,831	9,934	100%	6%	-
OTHER	-	-	-	-	-	-	-	-	-
TOTAL	6,036	13,831	9,934	0	13,831	9,934	-	-	-

\*The only component of capital structure that could be verified by staff was customer deposits.