



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: December 22, 2010

TO: Bart Fletcher, Public Utilities Supervisor, Division of Economic Regulation

FROM: Clarence Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 100128-WS
 Company Name: Lighthouse Utilities Company, Inc.
 Company Code: WU533
 Audit Purpose: Rate Case
 Audit Control No: 10-175-1-1

RECEIVED-FPSC
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 COMMISSION
 CLERK

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 were no confidential work papers associated with this audit.

CP/ip
Attachment: Audit Report

cc: (With Attachment)
 Office of Auditing and Performance Analysis (Mailhot, File Folder)
 Office of Commission Clerk
 Office of the General Counsel
 Tampa District Office
 Miami District Office

(Without Attachment)
 Office of Auditing and Performance Analysis (Tallahassee District Office)

DOCUMENT NUMBER DATE
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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.
File and Suspend Rate Case

Twelve Months Ended December 31, 2009

Docket No. 100128-WU
Audit Control No. 10-175-1-1
December 21, 2010

Handwritten signature of Donna D. Brown in cursive script.

Donna D. Brown
Audit Manager

Handwritten signature of Drew Von Euv in cursive script.

Drew Von Euv
Audit Staff

Handwritten signature of Lynn M. Deamer in cursive script.

Lynn M. Deamer
Reviewer

DOCUMENT NUMBER-DATE

10105 DEC 22 0

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Purpose

To: Florida Public Service Commission

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated June 24, 2010. We have applied these procedures to the Minimum Filing Requirements (MFRs) prepared by Lighthouse Utilities, Inc. (Utility) in support for rate relief in Docket No. 100128-WU for the test year ending December 31, 2009.

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

Objectives and Procedures

General

Utility Books and Records

Objective: The objective was to determine that the utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA).

Procedures: The audit staff reviewed the Utility's accounting system and found it to be not in compliance with the NARUC USOA. Audit Finding 1 discusses our findings.

Rate Base

Utility Plant in Service (UPIS)

Objective: The objectives are to determine that property exists and is owned by the Utility; that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission Rules and the NARUC USOA; and that proper retirements of UPIS were made when a replacement item was put into service.

Procedures: Audit staff performed limited audit work due to lack of support. Scope was cut short after a conference call between Commission staff and the Utility which resulted in an agreement for a cost study to be done for UPIS balances as of December 31, 2009.

Land and Land Rights

Objective: The objectives are to determine that utility land is recorded at original cost, is used for utility operations, and is owned or secured under a long-term lease.

Procedures: Audit staff determined the beginning land balance as of June 30, 1987 per Order No. 18897¹. We noted that prior Commission ordered adjustments were recorded and that there have been no purchases or sales of land since the last rate case.

Contributions in Aid of Construction (CIAC)

Objective: The objective is to determine that utility CIAC balances are properly stated and are reflective of service availability charges authorized in the Utility's Commission approved tariffs.

Procedures: Audit staff determined the beginning CIAC balances as of June 30, 1987 per Order No. 18897. We scheduled CIAC additions from the annual reports and traced our calculated ending balance as of December 31, 2009 to the general ledger and the MFR Schedule A-12. We also inquired if the Utility had any special agreements, developer agreements, and any formal policies and procedures for CIAC. No exceptions were noted.

¹ See Order No. 18897, issued February 22, 1988, Docket No. 870627-WU, In Re: Application of Lighthouse Utilities Company, Inc. for a staff-assisted rate case in Gulf County.

Accumulated Depreciation

Objective: The objectives are to determine that accruals to accumulated depreciation are properly recorded in compliance with Commission Rules and the NARUC USOA; to verify that depreciation accruals are calculated using the Commission's authorized rates, and to verify that retirements are properly recorded.

Procedures: Audit staff performed limited audit work due to lack of support for UPIS balances. Scope was cut short after a conference call between Commission staff and the Utility which resulted in an agreement for a cost study to be done for UPIS balances as of December 31, 2009. We verified that the Utility is using rates according to Commission Rule 25-30.140 F.A.C.

Accumulated Amortization of CIAC

Objective: The objectives are to determine that accumulated amortization of CIAC balances are properly stated, that annual accruals are reflective of the depreciation rates and are in compliance with Commission Rules and orders.

Procedures: Audit staff determined the beginning accumulated amortization of CIAC balances as of June 30, 1987 per Order No. 18897². We scheduled amortization accruals from the annual reports and traced our calculated ending balance as of December 31, 2009 using the Utility provided rates to the general ledger and the MFR Schedule A-14. No exceptions were noted.

Working Capital

Objective: The objective is to determine that the Utility's working capital balance is properly calculated in compliance with Commission Rules.

Procedures: Audit staff calculated the Utility's working capital balance for the test period ending December 31, 2009 using one-eighth of operation and maintenance expense pursuant to Commission Rule 25-30.433 (2), F.A.C. Audit Finding 2 discusses our findings.

² See Order No. 18897, issued February 22, 1988, Docket No. 870627-WU, In Re: Application of Lighthouse Utilities Company, Inc. for a staff-assisted rate case in Gulf County.

Net Operating Income

Revenue

Objective: The objectives are to verify that the Utility is billing the Commission approved tariff rates for water and to determine that revenue earned from utility property during the test year is recorded, included in the MFRs, and is properly classified in compliance with Commission Rules and the NARUC USOA.

Procedures: The audit staff reviewed the Utility's Commission approved tariffs establishing rates, and scheduled water utility revenue for the 12-month period ending December 31, 2009 from the Utility's billing register. We tested the reasonableness of the utility revenue by multiplying the average consumption times the number of billings for each class of service and compared it to the general ledger and the MFRs. We recalculated 3 months of billing registers for 2009 using the authorized tariff rates. Audit Finding 3 discusses our findings.

Operation and Maintenance Expense (O&M)

Objective: The objectives are to determine that O&M costs are classified according to Commission Rules and the NARUC USOA and that expenditures are recorded in the proper period and are appropriate for regulatory policy.

Procedures: Audit staff compiled O&M expenses by account from the general ledger and compared them to the O&M expenses from the Utility's MFRs for the test year ended December 31, 2009. We reviewed all of the Utility's invoices for proper amount, period, classification, NARUC account, and recurring nature. Audit Findings 4 and 5 discuss our findings.

Net Depreciation Expense

Objective: The objective is to determine that depreciation is properly recorded in compliance with Commission Rules and that it accurately represents the depreciation of utility plant in service assets and the amortization of utility CIAC for ongoing utility operations.

Procedures: Audit staff performed limited audit work due to lack of support for UPIS balances. Scope was cut short after a conference call between Commission Staff and the Utility which resulted in an agreement for a cost study to be done for plant in service balances as of December 31, 2009. We calculated amortization on the CIAC balances for the test year ending December 31, 2009 using a rate provided by the Utility and the ending UPIS balances as per the MFR; no exceptions were noted.

Taxes Other Than Income (TOTI)

Objective: The objective is to determine that the MFR balances for TOTI are accurate for the test year ended December 31, 2009 and are recorded in compliance with Commission Rules.

Procedures: Audit staff reconciled TOTI expenses from the Utility's MFR Schedule B-15 to its general ledger. We reviewed the property tax invoices and regulatory assessment fee forms for proper amount, period, and classification. We verified that all property tax expense reflected the maximum discount available. We traced the Utility's payroll taxes and TOTI – other for water operations to its supporting documentation. We recalculated the amount of the Regulatory

Assessment Fees (RAF) due based on the recalculated revenues using the FPSC approved rate.
Audit Finding 6 discusses our findings.

Capital Structure

General

Objective: The objective is to determine that the components of the utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission Rules and that it accurately represents the ongoing utility operations.

Procedures: Audit staff reviewed the Utility's Reconciliation of Capital Structure to Requested Rate Base, MFR Schedule D-2, and the Simple Average Cost of Short-term Debt, MFR Schedule D-4, and traced the amounts to the general ledger as of December 31, 2009. We traced the debt balances to the supporting loan agreements and payment receipts. There are no customer deposits. No exceptions were noted.

Audit Findings

Audit Finding 1

Subject: Books and Records

Audit Analysis: Lighthouse Utilities Company, Inc.'s (Utility) books and records are not maintained in accordance with the National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA).

NARUC, Class B, Accounting Instructions, states:

All books of accounts, together with records and memoranda supporting entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda, and information useful in determining the facts regarding a transaction.

Commission Rule 25-30.115, F.A.C., requires Florida utilities to maintain their books and records in conformity with the NARUC USOA.

Lighthouse Utilities Company, Inc. does not have adequate records to establish rate base. A conference call between Commission staff and the Utility resulted in an agreement for a cost study to be done for UPIS balances as of December 31, 2009.

Effect on the General Ledger: This is for information purposes only.

Effect on the Filing: This is for information purposes only.

Audit Finding 2

Subject: Working Capital

Audit Analysis: The Utility recorded \$387,200 of O&M expenses and calculated working capital using the 1/8 of O&M methodology to be \$48,400. In Audit Finding 5, audit staff reduced O&M expense by \$16,800. Therefore, working capital should be reduced by \$2,100. See the table below.

	Balance Per MFR	Adjustments	Balance Per Audit
O&M Expense	\$387,200	(\$16,800)	\$370,400
1/8 of O&M Rate	0.1250		0.1250
Working Capital	\$48,400	(\$2,100)	\$46,300

Effect on the General Ledger: No adjustment is necessary.

Effect on the Filing: Working Capital should be reduced by \$2,100.

Audit Finding 3

Subject: Revenue

Audit Analysis: The Utility recorded \$477,490 in revenue in its general ledger and MFRs for the test year ended December 31, 2009. Audit staff reviewed and recalculated the Utility's monthly billing registers for the year ending December 31, 2009 and determined revenues to be \$468,481. The Utility had no explanation for the variance, and provided their own recalculation of the billing registers that reconciled with the audit staff's. See the table below.

Description	Balance Per Utility	Adjustments	Balance Per Audit
Revenue	\$477,490	(\$ 9,009)	\$468,481

Effect on the General Ledger: None.

Effect on the Filing: Revenue should be reduced by \$9,009 for the test year ended December 31, 2009.

Audit Finding 4

Subject: Operation And Maintenance Reclassifications

Audit Analysis: The audit staff reviewed the supporting documentation for O&M expenses and determined that the Utility had classified some expenses inappropriately. We are recommending the following adjustments to O&M as per the NARUC USA.

1. Account 601 – Salaries and Wages-Employees should be increased by \$35,844 due to the incorrect classification of William J. Rish, Jr.'s salary into Salaries and Wages-Officers and Directors. Although Mr. Rish is the Utility's President, he performs duties that would classify him as an employee.
2. Account 603 – Salaries and Wages-Officers and Directors should be increased by \$42,000 due to the incorrect classification of director's fees into miscellaneous expenses. Account 603 should also be decreased by \$35,844 since Mr. Rish's salary was reclassified into Salaries and Wages-Employees. This results in a net increase of \$6,156.
3. Account 610 – Purchased Water should be increased by \$189 for expenses classified as purchased power.
4. Account 615 – Purchased Power should be decreased by \$189 since it was reclassified to purchased water.
5. Account 641 – Rental of Building/Real Property should be decreased by \$110 to properly reclassify a post office box rental expense into miscellaneous expenses.
6. Account 675 – Miscellaneous Expenses should be decreased by \$42,000 since the directors' fees were reclassified to Salaries and Wages-Officers and Directors, and increased by \$110 for the reclassification of the post office box rental expense. These adjustments result in a net decrease of \$41,890.

Effect on the General Ledger: The following general ledger entries are needed to correct the utility general ledger balances as of December 31, 2009.

NARUC Acct. No.	Description	Debit	Credit
601	Salaries & Wages-Employees	\$ 35,844	\$ -
603	Salaries & Wages-Officers	\$ 6,156	\$ -
610	Purchased Water	\$ 189	\$ -
615	Purchased Power	\$ -	\$ 189
641	Building Rental	\$ -	\$ 110
675	Miscellaneous Expenses	\$ -	\$ 41,890

Effect on the Filing: None. As noted above the Utility paid \$42,000 in director's fees. There are 7 directors including William J. Rish, Jr. who are each paid \$6,000 annually. We defer any determination as to the appropriate level of directors' fees to the analyst in the Division of Economic Regulation.

Audit Finding 5

Subject: Operation and Maintenance Expenses

Audit Analysis: Audit staff reviewed the supporting documentation for O&M expenses and noted the following adjustments.

1. Account 610 – Purchased Water should be increased by \$50 for expenses incurred in the test period that were not included in the general ledger or the MFRs, and decreased by \$17 for out of period expenses. This results in a net increase of \$33.
2. Account 615 – Purchased Power should be decreased by \$2,479 for out of period expenses, and by \$45 for late charges incurred by the Utility. Also, it should be increased by \$2,436 for expenses incurred in the test period but not included in the general ledger or the MFRs. This results in a net decrease of \$88.
3. Account 618 – Chemicals should be increased by \$4 to reconcile the MFR balance to the general ledger balance, decreased by \$46 due to out of period expenses, and decreased by \$404 due to insufficiently supported expenses. This results in a net decrease of \$446.
4. Account 620 – Materials and Supplies should be decreased by \$526 due to out of period expenses and by \$222 due to insufficiently supported expenses. This results in a net decrease of \$748.
5. Account 635 – Contractual Services-Testing should be decreased by \$4 in order to reconcile the MFR balance to the general ledger balance, decreased by \$105 due to insufficiently supported expenses, and decreased by \$105 due to out of period expenses. This results in a net decrease of \$214.
6. Account 641 – Rental of Building/Real Property should first be decreased by \$500 because the Utility recorded 13 months of rental expense for the 12-month period. Next, the account should be decreased by \$3,000 because audit staff determined that only half of the rental expense is appropriate. This was determined as the appropriate amount because upon site visit it was apparent that approximately half of the rented space was used for utility operations, and the remaining half is used for an affiliated real estate company. These adjustments result in a net decrease of \$3,500.
7. Account 650 – Transportation Expenses should be decreased by \$5,031 due to insufficiently supported expenses, including credit card charges for gas and parts without receipts, and invoices and bills that were not tied to specific company vehicles. This account should also be decreased by \$290 due to out of period expenses, and by \$27 due to a late charge incurred by the Utility. These adjustments result in a net decrease of \$5,348.
8. Account 658 – Workman’s Compensation should be increased by \$210 due to an unsupported credit recorded in the general ledger.

9. Account 675 – Miscellaneous Expenses should be decreased by \$1,776 for insufficiently supported expenses and by \$3,196 for out of period expenses. In addition, the account should be decreased by \$76 for late charges incurred by the Utility, and decreased by \$1,650 for the Utility Manager’s mileage reimbursements for his commute from his home in Panama City to the Utility in Port St. Joe, which is a non-utility expense. These adjustments result in a net decrease of \$6,698.

Effect on the General Ledger: None.

Effect on the Filing: Operation and Maintenance Expenses should be reduced by \$16,800 for the test year ended December 31, 2009.

Audit Finding 6

Subject: Taxes Other Than Income (TOTI)

Audit Analysis: The Utility listed \$20,884 of RAF fees on MFR Schedule B-15. However, audit staff determined the Utility's RAF fees to be \$21,082, based on recalculated revenues, resulting in an increase of \$198 in RAF fees. On the MFR Schedule B-15, the Utility recorded \$15,052 for Real Estate and Personal Property Taxes. However, the audit staff reviewed the actual tax bills and the maximum discount available which resulted in a balance of \$15,495. The audit staff also reviewed and recalculated the payroll taxes to be \$9,548. The following adjustments should be made to increase TOTI.

Description	Balance Per Utility	Audit Adjustment	Balance Per Audit
Regulatory Assessment Fees (RAFS)	\$ 20,884	\$ 198	\$ 21,082
Payroll Taxes	\$ 9,551	\$ (3)	\$ 9,548
Real Estate & Personal Property	\$ 15,052	\$ 443	\$ 15,495
TOTI - Other	\$ 2,093	\$ -	\$ 2,093
Total	\$ 47,580	\$ 638	\$ 48,218

Effect on the General Ledger: None.

Effect on the Filing: TOTI should be increased by \$638 for the test year ended December 31, 2009.

Exhibits

Exhibit 1 – Lighthouse Utilities Rate Base

Schedule of Water Rate Base

Florida Public Service Commission

Company: Lighthouse Utilities Company, Inc.
 Docket No.: 100128-WU
 Schedule Year Ended: December 31, 2009
 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	3,264,824	-	3,264,824	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	(1,121,431)	-	(1,121,431)	A-9
6	Less: CIAC	(1,702,132)	-	(1,702,132)	A-12
7	Accumulated Amortization of CIAC	674,988	-	674,988	A-14
8	Acquisition Adjustments	-	-	-	-
9	Accum. Amort. of Acq. Adjustments	-	-	-	-
10	Advances For Construction	-	-	-	A-16
11	Working Capital Allowance	135,799	-	135,799	A-17
12	Total Rate Base	<u>1,251,848</u>	<u>-</u>	<u>1,251,848</u>	

Exhibit 2 – Water Net Operating Income

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Lighthouse Utilities Company, Inc.
 Schedule Year Ended: December 31, 2009
 Interim Final
 Historic or Projected

Schedule: B-1
 Page 1 of 1
 Docket No.: 100128-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	477,490	-	477,490	177,450 (A)	654,940	B-4
2	Operation & Maintenance	387,200	21,862 (B)	409,062	-	409,062	B-5
3	Depreciation, net of CIAC Amort.	40,451	-	40,451	-	40,451	B-13
4	Amortization	241	-	241	-	241	
5	Taxes Other Than Income	47,580	-	47,580	7,985 (C)	55,565	B-16
6	Provision for Income Taxes	-	-	-	-	-	C-1
7	OPERATING EXPENSES	<u>476,472</u>	<u>21,862</u>	<u>497,334</u>	<u>7,985</u>	<u>505,320</u>	
8	NET OPERATING INCOME	<u>\$ 2,018</u>	<u>\$ (21,862)</u>	<u>\$ (19,844)</u>	<u>\$ 189,466</u>	<u>\$ 149,621</u>	
9	RATE BASE	1,251,848	-	1,251,848		1,251,848	
10	RATE OF RETURN	0.16%		-1.59%		11.95%	

Exhibit 3 – Capital Structure

Schedule of Requested Cost of Capital
Beginning and End of Year Average

Florida Public Service Commission

Company: Lighthouse Utilities Company, Inc.
Docket No.: 100128-WU
Test Year Ended: December 31, 2009
Schedule Year Ended: December 31, 2009
Historic or Projected

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

Subsidiary or Consolidated

Explanation: Provide a schedule which calculates the requested Cost of Capital on a beginning and end of year average basis. If a year-end basis is used submit an additional schedule reflecting year-end calculations.

Line No.	Class of Capital	(1) Reconciled To Requested Rate Base	(2) Ratio	(3) Cost Rate	(4) Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%
2	Short-Term Debt	838,810	67.01%	8.06%	5.40%
3	Preferred Stock	-	0.00%	0.00%	0.00%
4	Customer Deposits	-	0.00%	0.00%	0.00%
5	Common Equity	413,038	32.99%	11.80%	3.93%
6	Other (Explain)	-	0.00%	0.00%	0.00%
7	Total	1,251,848	100.00%		9.33%

Supporting Schedules: D-2
Recap Schedules: A-1,A-2