

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: February 7, 2013
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 120270-SU
Company Name: West Lakeland Wastewater, Inc.
Company Code: SU836
Audit Purpose: A1b Staff Assisted Rate Case
Audit Control No.: 12-335-4-1

RECEIVED
PSC
13 FEB - 7 PM 2:17
COMMISSION
CLERK

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of 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 confidential work papers associated with this audit.

LD/th

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

00752 FEB-7 2013

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

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

Auditor's Report

West Lakeland Wastewater, LLC
Staff-Assisted Rate Case

Twelve Months Ended September 30, 2012

Docket No. 120270-SU
Audit Control No. 12-335-4-1

February 6, 2013

A handwritten signature in blue ink, appearing to read "Kathy Welch".

Kathy Welch
Audit Manager

A handwritten signature in blue ink, appearing to read "Linda Hill-Slaughter".

Linda Hill-Slaughter
Audit Staff

A handwritten signature in blue ink, appearing to read "Iliana H. Piedra".

Iliana H. Piedra
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated November 29, 2012. We have applied these procedures to the attached schedules prepared by the audit staff in support of West Lakeland Wastewater, LLC's request for a Staff-Assisted Rate Case in Docket No.120270-SU.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

Background

The term "Utility" refers to West Lakeland Wastewater, LLC. The Utility's last rate case order, PSC-00-1163-PAA-SU, issued June 26, 2000 in Docket No. 990937-SU, used a test year ended June 30, 1999. At that time the Utility name was ABCA, Inc. Commission Order PSC-01-1271-PAA-SU, issued June 6, 2001 in Docket 010382-SU, approved the transfer from ABCA, Inc. to West Lakeland Utilities, Inc. at the rate base established in Order PSC-00-1163-PAA-SU. Commission Order PSC-01-1576-FOF-SU, issued July 30, 2001, modified the order to reflect the appropriate certificate number and addressed the issue of land which will be discussed in Finding 4 of this report. Commission Order PSC-08-0083-PAA-SU, issued February 13, 2008 in Docket 070466-SU, approved an increase specifically related to meter reading costs. In March of 2009, the Utility gave notice of abandonment of the Utility. Commission Order PSC-09-0607-FOF-SU, issued September 8, 2009 in Docket 090154-SU, acknowledged the appointment of Mr. Michael Smallridge as the receiver of the Utility. The utility asked for staff-assisted rate case in Docket 090415-SU. An audit report with the test year 12-Months Ended September 30, 2009, was issued. However, this case was withdrawn and confirmed in Commission Order PSC-10-0199-FOF-SU. On December 13, 2011, the Tenth Judicial Circuit Court in Polk County transferred ownership of the Utility to Mr. Smallridge as West Lakeland Wastewater, LLC. The transfer has not been approved by the Commission at this time.

Utility Books and Records

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

Procedures: We reviewed the Utility's accounting systems. The Utility uses the NARUC account numbers in its ledgers.

Rate Base

Utility Plant in Service

Objectives: Our objectives were to: 1) Determine whether property exists and is owned by the Utility and that plant additions are authentic, recorded at cost, and properly classified in compliance with Commission rules and the NARUC USOA, 2) Verify that the proper retirements of plant were made when a replacement item was put in service, and 3) Verify that the adjustments to plant in the Utility's last rate proceeding were recorded in its general ledger.

Procedures: We obtained the wastewater plant balances, as of June 30, 1999, that were established in Docket 990937-SU. The Utility did book the balances from Commission Order PSC-00-1163-PAA-SU in its 2012 ledger. An audit was not performed when the notice of abandonment occurred in 2009 and the records Mr. Smallridge obtained when he took over as

receiver did not include ledgers or invoices. Therefore, additions to rate base from 1999 to 2001 could not be verified. Because no records were available for July 1, 1999 to June 2009, we reviewed the additions to wastewater plant for the period June 2009 through September 30, 2012 to verify the wastewater plant balances for this proceeding. We obtained invoices from a contractor for 2007 to 2010. We toured the plant and the service area. We reviewed for retirements made when a capital item was removed or replaced. Findings 1, 2, and 3 discuss the adjustments to plant.

Land & Land Rights

Objectives: Our objectives were to determine whether Utility land is recorded at original cost, is owned or secured under a long-term lease, and verify that the adjustments to land in the Utility's last rate proceeding were recorded in its general ledger.

Procedures: We obtained the wastewater land balance as of June 30, 1999, that was established in Docket 990937-SU, and compared it to the ledger balance at September 30, 2012. Because the Utility has sold land since rate base was established, the Utility did make the appropriate correction to the land balance that was recommended in the 2009 audit filed in Docket 090415-SU. The adjustment correctly reduced land for the parcels sold. We also performed a land search on the county website and toured the land. The Utility does not own all of the land used for providing service. Finding 4 discusses the land ownership.

Contributions-in-Aid-of-Construction

Objectives: Our objectives were to: 1) Determine that additions to Contributions-in-Aid-of-Construction (CIAC) are properly recorded in compliance with Commission rules and the NARUC USOA, 2) Verify that donated property is properly accounted for and recorded as CIAC, and 3) Verify that the adjustments to CIAC in the Utility's last rate proceeding were recorded in the general ledger.

Procedures: We obtained the wastewater CIAC balance, as of June 30, 1999, that was established in Docket 990937-SU. We obtained the tariff rates and the increase in customers based on the annual reports. We reviewed the income tax returns for unrecorded cash and property contributions. No CIAC was added to the ledger since the last rate case. However, since customers were added during the years that we do not have records, CIAC has been imputed using the tariffs and the increase in customers since the last case. Finding 6 discusses the imputation.

Accumulated Depreciation

Objectives: Our objectives were to: 1) Verify that the adjustments to accumulated depreciation in the Utility's last rate proceeding were recorded in the general ledger, 2) Determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USOA, 3) Verify that depreciation expense accruals are calculated using the Commission's authorized rates, and 4) Verify that retirements are properly recorded.

Procedures: We obtained the wastewater accumulated depreciation balances as of June 30, 1999, that were established in Docket 990937-SU. We recalculated depreciation from July 1, 1999 to September 30, 2012 using the balances from the last case and the rates authorized in

Rule 25-30.140, Florida Administrative Code (F.A.C). We calculated the retirements to accumulated depreciation to be made when a capital item was removed or replaced. Finding 1, 2, 3, 5, and 10 address our recommended adjustments to accumulated depreciation.

Accumulated Amortization of CIAC

Objectives: Our objectives were to: 1) Determine accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules, and 2) Verify that the adjustments to accumulated amortization of CIAC in the Utility's last rate proceeding were recorded in the general ledger.

Procedures: We obtained the wastewater accumulated amortization of CIAC balance as of June 30, 1999, that was established in Docket 990937-SU. We recalculated amortization using the balances from the last case and the rates authorized in rule 25-30.140, F.A.C. Finding 5 addresses our recommended adjustment to accumulated amortization of CIAC.

Working Capital

Objectives: Our objective was to calculate working capital in compliance with Commission rules.

Procedures: We calculated working capital for the test year using the using the one-eighth of operating and maintenance expense method according to Rule 30.433(2), F.A.C.

Capital Structure

Objectives: Our objective was to determine the components of the Utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital.

Procedures: We reviewed the cost of capital components of the Utility. We recalculated the components and cost rates using averages. We prepared a schedule to reconcile rate base to the capital structure. We prepared a weighted cost of capital structure schedule.

Net Operating Income

Operating Revenue

Objectives: Our objective was to determine that utility revenues are properly recorded in compliance with Commission rules and are based on the Utility's Commission approved tariff rates.

Procedures: We determined the Utility's revenues for the 12-month period ending September 30, 2012, by tracing them to the Utility's general ledger and billing reports. We verified that the Utility is using its Commission authorized tariff rates by recalculating a sample of residential and general service customers' bills in the test year period. We prepared a billing analysis of the consumption from the billing reports. Finding 7 addresses our recommended adjustments to operating revenues.

Operation and Maintenance Expense

Objectives: Our objective was to determine that operation and maintenance expenses are properly recorded in compliance with NARUC USOA and Commission rules and are representative of ongoing utility operations.

Procedures: We verified wastewater operating and maintenance expenses for the 12-month period ending September 30, 2012, by tracing a sample of invoices to the original source documentation. We reviewed invoices for proper period, amount, classification, support, recurring, and utility related. We scheduled the cost of contracted services by type of service.

We examined related party transactions with other Utilities owned or managed by Mr. Smallridge for benefits received by the Utility but having no costs assigned. We have determined the most recent costs that are common to all the Utilities and established an allocation percentage based on number of customers. We determined if any additional expenses are required and obtained estimates from the Utility for these items. Finding 8, 9, 10, 11 and 12 address our recommended adjustments to operating and maintenance expenses.

Taxes Other than Income

Objectives: Our objective was to determine that taxes other than income are properly recorded in compliance with Commission rules and agree to the tax returns.

Procedures: We verified wastewater taxes other than income for the 12- month period ending September 30, 2012, by tracing to original source documentation. We reviewed the 2011 regulatory assessment fee returns. Finding 13 addresses our recommended adjustments to taxes other than income taxes.

Findings

Finding 1: Utility Plant in Service

Audit Analysis: Because the Utility was taken over by a receiver when the prior owners abandoned the plant in 2009, we were unable to obtain books or records between 1999 and 2009. In 2012, the Utility booked the existing assets based on the last rate order except for the land. The land was adjusted to the balance determined in the audit in Docket 090415-SU, even though the case was withdrawn. The Utility replaced pumps since it took over receivership, but no retirements were made for the old pumps. Based on the Commission methodology of retiring 75% of the cost of the new asset, \$1,016.29 should have been retired in July, 2011 and \$1,070.91 should have been retired in the test year. In addition, depreciation needs to be removed for the amount of plant that was retired for 2011 and the test year. The depreciation was computed as follows:

Date	New Asset	75% of New Asset	Depreciation Rate	Depreciation Expense	Years In Service		Effect on Acc. Dep.
7/11/2011	\$ 1,355.05	\$ 1,016.29	4%	\$ 40.65	1.38	A	\$ 55.90
10/20/2011	\$ 1,427.88	\$ 1,070.91	4%	\$ 42.84	0.50		\$ 21.42
	\$ 2,782.93	\$ 2,087.20		\$ 83.49			\$ 77.31
Balance 9/11		\$ 1,016.29					\$ 15.24
Average		\$ 1,551.74					\$ 46.28

Note A-Based on 1 year for test year and 1/2 year for the 9 months January-September, 2011

Effect on the General Ledger: The following entries should be booked to the general ledger. Since the books are already closed, depreciation expense should be booked to retained earnings.

Acct. #	Account	Debit	Credit
108.00	Accumulated Depreciation	\$ 1,016.29	
370.00	Receiving Wells		\$ 1,016.29
	To record retirement of pump in 2011.		
108.00	Accumulated Depreciation	\$ 55.90	
	Retained Earnings		\$ 55.90
	To reduce depreciation for retirement of pump in 2011.		
108.00	Accumulated Depreciation	\$ 1,070.91	
370.00	Receiving Wells		\$ 1,070.91
	To record retirement of pump in 2012.		
108.00	Accumulated Depreciation	\$ 21.42	
	Retained Earnings		\$ 21.42
	To reduce depreciation for retirement of pump in test year.		

Effect on the Staff Prepared Filing: Average Plant in Service was reduced by \$1,551.74 (Average of \$1016.29 and \$2,087.20). Average Accumulated Depreciation was reduced (debited) by \$1,598.02 (\$1,551.74+\$46.28). Depreciation Expense was reduced by \$83.49.

Finding 2: Utility Plant in Service – 2007-2010

Audit Analysis: Although the current owner of the Utility did not have control of the plant until 2009, and not all checks in 2010 were recorded in the books, the operator servicing the plant was able to provide four invoices for plant additions that occurred between December 2007 and February 2010. These items should be added to plant and adjusted for the associated retirements.

Account	Date	Description	Amount	Retire Old 75%
370	12/13/2007	Install New Lift Station Panel	\$ 2,650.55	\$ 1,987.91
370	10/14/2009	Replace Discharge Pipe in Lift Station	\$ 2,438.12	\$ 1,828.59
370	2/15/2010	Install Pump in Lift Station	\$ 2,282.00	
			\$ 7,370.67	\$ 3,816.50
380	1/21/2010	Install Auto Dialer at WWTP	\$ 2,479.57	
			\$ 9,850.24	\$ 3,816.50

Depreciation was computed as follows:

Account	Year Installed	Amount	Less Retirement	Net Addition	Rate	Depreciation Per Year	Years	Accumulated Depreciation
370	2007	\$ 2,650.55	\$ (1,987.91)	\$ 662.64	4.00%	\$ 26.51	5.25	\$ 139.15
370	2009	\$ 2,438.12	\$ (1,828.59)	\$ 609.53	4.00%	\$ 24.38	3.25	\$ 79.24
370	2010	\$ 2,282.00		\$ 2,282.00	4.00%	\$ 91.28	2.25	\$ 205.38
		\$ 7,370.67	\$ (3,816.50)	\$ 3,554.17		\$ 142.17		\$ 423.77
380	2010	\$ 2,479.57		\$ 2,479.57	6.67%	\$ 165.39	2.25	\$ 372.12
		\$ 9,850.24		\$ 6,033.74		\$ 307.55		\$ 795.89

Note: 1/2 year in year of addition and 3/4 year Jan.-August 2012.

Accumulated Depreciation also needs to be debited for the retirement entry.

Account	Year Installed	Debit Retirement	Acc. Dep. Beg. TY	Total Adj. Beg. TY		Debit Retirement	Acc. Dep. End TY	Total Adj. End TY
370	2007	\$ 1,987.91	\$ (112.64)	\$ 1,875.27		\$ 1,987.91	\$ (139.15)	\$ 1,848.76
370	2009	\$ 1,828.59	\$ (54.86)	\$ 1,773.73		\$ 1,828.59	\$ (79.24)	\$ 1,749.35
370	2010		\$ (114.10)	\$ (114.10)			\$ (205.38)	\$ (205.38)
		\$ 3,816.50	\$ (281.60)	\$ 3,534.90		\$ 3,816.50	\$ (423.77)	\$ 3,392.73
380	2010		\$ (206.73)	\$ (206.73)			\$ (372.12)	\$ (372.12)
			\$ (488.33)	\$ 3,328.17			\$ (795.89)	\$ 3,020.61

Effect on the General Ledger: The effect on the general ledger follows. Since the books are closed, depreciation expense will be recorded to retained earnings.

Acct. #	Account	Debit	Credit
370.00	Receiving Well	\$ 7,370.67	
380.00	Treatment and Disposal Equipment	\$ 2,479.57	
	Equity		\$ 9,850.24
To record invoices that were not included because the ledgers were never updated.			
108.00	Acc. Dep. Receiving Well	\$ 3,816.50	
370.00	Receiving Well		\$ 3,816.50
To retire 75% of cost of pumps for old pumps.			
	Retained Earnings	\$ 795.89	
108.00	Accumulated Depreciation Receiving Well		\$ 423.77
108.00	Accumulated Depreciation T & D		\$ 372.12
To record Depreciation on invoices not included.			

Effect on the Staff Prepared Filing: Average Plant in Service was increased by \$6,033.74. Average Accumulated Depreciation was decreased (debited) by \$3,174.38. (Average of \$3,328.17 and \$3,021.61). Depreciation expense was increased by \$307.55.

Finding 3: Utility Plant in Service-Pro Forma

Audit Analysis: Mr. Smallridge has presented bids for three items that need to be done to improve the Utility in the near future.

1. Consta Flow has provided a bid for \$8,022.91 for rehabilitation of lift station number 2. The depreciation for a year would be \$535.13 using the 6.67% depreciation rate according to Rule 25-30.140, F.A.C.

2. A 3" check valve at the plant needs to be replaced. Consta Flow has provided a bid for \$966.54 for this item. The depreciation for a year would be \$64.47 based on a 6.67% depreciation rate according to Rule 25-30.140, F.A.C.

3. A King manhole ring needs to be replaced and three manholes raised. Garner Completesite, Inc. provided a bid of \$2,530. Depreciation on this item would be \$63.25 using the 2.5% rate according to Rule 25-30.140, F.A.C.

These items need to be reviewed by the staff engineer to determine if they are reasonable. However, we have included them under the pro forma column on the attached rate base and net operating income schedules. There may be retirements associated with these additions that have not been included in this report.

Effect on the General Ledger: There is no effect on the general ledger until the additions are actually made.

Effect on the Staff Prepared Filing: Pro Forma Plant in Service was increased by \$11,519.45. Pro forma Accumulated Depreciation should be increased (credited) by \$662.85 and depreciation expense increased by the same amount (debited). If the engineering staff does not agree with these pro forma additions, they should be removed.

Finding 4: Land

Audit Analysis: The cost of land included in Commission Order PSC-00-1163-PAA-SU was based on three parcels of land. The cost included the parcel for the plant, the parcel the percolation ponds were on, and the parcel the spray irrigation fields were on. ABCA, Inc., the owner of the Utility at the last case, owned several other parcels of land. In 2001, Sam Averett and Suzzane Britt purchased all the land including the Utility land in a tax sale. The deed assigned the parcel the spray irrigation fields were on and the parcel the actual plant is on to the Utility and the parcel the percolation ponds are on to Britt and Averett along with the other parcels. Britt and Averett were established as the Utility owners in Docket 010382-SU.

In 2006, Transworld Lakeland, LLC (Transworld) purchased the parcel containing the percolation ponds from Britt and Averett and the parcel with the spray irrigation fields from West Lakeland Wastewater. Both of these sales were recorded on the same deed.

We could not find a sales agreement with Transworld to support the deed. We did find a sales agreement with Santrust, Ltd. and WM. Sanderlin Associates. Our review of the Secretary of States Listings showed that Santrust and Transworld have the same registered agent. A search of the Clerk of Court records in Polk County did not find any land being sold to Santrust. Those records also show that Transworld still owns the property.

In Docket 050502-SU in 2005, a developer agreement was prepared and filed with the Commission which states that the developer, Santrust, Ltd., would purchase a new plant and provide all site improvements and land. Mike Smallridge believes that Transworld has to build the Utility a new plant and provided drawings of the site that would be used. However, the agreement the Utility had is with Santrust. But, Transworld owns the property, not Santrust. In addition, the case with the Commission was withdrawn.

According to Rule 25-30.033(1)(j), F.A.C. The Utility is required to own the property, have a 99-year lease, or an easement for all Utility property. The Utility does not own or have a lease for the Percolation Ponds or the Spray Irrigation fields at this time.

The land balance in the ledger was reduced to the balance determined in the 1999 audit for the wastewater treatment plant parcel only. Therefore, the ledger balance is correct. The Utility is currently working with Commission staff and the Utility's legal council to get a 99-year lease or an easement with Transworld Lakeland, LLC.

Effect on the General Ledger: The ledger is correct.

Effect on the Staff Prepared Filing: There is no effect on the filing.

Finding 5: Accumulated Depreciation and Accumulated Amortization

Audit Analysis: Depreciation was computed in the audit using the plant balances from Utility's last rate case order, PSC-00-1163-PAA-SU, the additions made to plant that were booked since the abandonment, and the depreciation rates in Rule 25-30.140, F.A.C. Adjustments to plant were computed separately in Findings 1-3. The computation was compared to the balances in the general ledger. The differences follow:

Account	Per Staff Computation	General Ledger	Differences
Accumulated Depreciation 9/30/11	\$ (232,439.09)	\$ (225,003.00)	\$ (7,436.09)
Accumulated Depreciation 9/30/12	\$ (232,988.88)	\$ (225,003.00)	\$ (7,985.88)
Average Accumulated Depreciation	\$ (232,713.99)	\$ (225,003.00)	\$ (7,710.98)
Depreciation Expense	\$ 549.79	\$ -	\$ 549.79

The detail follows this finding in Table 5-1.

The Utility also booked CIAC using Docket 990937-SU balances. Staff computed the amortization of CIAC using these balances. Since CIAC was not separated into plant accounts, the composite amortization was computed each year. The following is a summary of staff's calculation.

	CIAC Balance	Composite Rate	Amortization Expense	Accumulated Amortization	Ledger	Difference
Balance Per Order	\$ (163,400.00)			\$ 75,265.00		
Additions July-Dec. 99(1/2 year)		3.66%	\$ 2,990.22	\$ 78,255.22		
Additions 2000		2.30%	\$ 3,758.20	\$ 82,013.42		
Additions 2001		1.51%	\$ 2,467.34	\$ 84,480.76		
Additions 2002		1.44%	\$ 2,352.96	\$ 86,833.72		
Additions 2003		1.44%	\$ 2,352.96	\$ 89,186.68		
Additions 2004		1.44%	\$ 2,352.96	\$ 91,539.64		
Additions 2005		1.44%	\$ 2,352.96	\$ 93,892.60		
Additions 2006		1.44%	\$ 2,352.96	\$ 96,245.56		
Additions 2007		1.44%	\$ 2,352.96	\$ 98,598.52		
Additions 2008		1.44%	\$ 2,352.96	\$ 100,951.48		
Additions 2009		1.37%	\$ 2,238.58	\$ 103,190.06		
Additions 2010		1.22%	\$ 1,993.48	\$ 105,183.54		
Additions Jan.-Sept. 2011 (3/4 year)		0.88%	\$ 1,078.44	\$ 106,261.98		
Balance September 30, 2011	\$ (163,400.00)			\$ 106,261.98	\$125,305.00	\$ (19,043.02)
Additions Test Year		0.23%	\$ 375.82		\$ -	\$ 375.82
Balance September 30, 2012	\$ (163,400.00)			\$ 106,637.80	\$125,305.00	\$ (18,667.20)
Average	\$ (163,400.00)			\$ 106,449.89	\$125,305.00	\$ (18,855.11)

Note: Rates have decreased because of fully depreciated plant.

Effect on the General Ledger: The effect on the general ledger follows. Since the books are closed, depreciation and amortization expense will be recorded to retained earnings.

Account #	Account	Debit	Credit
	Retained Earnings	\$ 7,985.88	
108.00	Accumulated Depreciation		\$ 7,985.88
271.00	Accumulated Amortization of CIAC		\$ 18,667.20
	Retained Earnings	\$ 18,667.20	

Effect on the Staff Prepared Filing: Average Accumulated Depreciation was increased by \$7,710.98. Depreciation expense was increased by \$549.79. Average Accumulated Amortization was decreased (credited) by \$18,855.11. Amortization expense was increased (credited) by \$375.82.

Table 5-1

**Staff Calculation of Accumulated Depreciation
Test Year Ended September 30, 2011**

Account Number	Account Title	Rates	6/30/1999 Balance	Additions July-Dec. 09	1999 Balance	Additions 2000	2000 Balance	Additions 2001	2001 Balance	Additions 2002	2002 Balance
	Plant										
354	Structures and Improvements		\$ 916.00		\$ 916.00		\$ 916.00		\$ 916.00		\$ 916.00
360	Force Mains		\$ 6,548.00		\$ 6,548.00		\$ 6,548.00		\$ 6,548.00		\$ 6,548.00
361	Gravity Mains		\$ 97,141.00		\$ 97,141.00		\$ 97,141.00		\$ 97,141.00		\$ 97,141.00
363	Services		\$ 16,503.00		\$ 16,503.00		\$ 16,503.00		\$ 16,503.00		\$ 16,503.00
364	Flow Measuring Devices		\$ 1,403.00		\$ 1,403.00		\$ 1,403.00		\$ 1,403.00		\$ 1,403.00
365	Flow Measuring Installations		\$ 952.00		\$ 952.00		\$ 952.00		\$ 952.00		\$ 952.00
370	Receiving Wells		\$ 31,696.00		\$ 31,696.00		\$ 31,696.00		\$ 31,696.00		\$ 31,696.00
371	Pumping Equipment				\$ -		\$ -		\$ -		\$ -
380	Treatment & Disposal Equipment		\$ 73,307.00		\$ 73,307.00		\$ 73,307.00		\$ 73,307.00		\$ 73,307.00
382	Outfall Sewer Lines		\$ 5,990.00		\$ 5,990.00		\$ 5,990.00		\$ 5,990.00		\$ 5,990.00
390	Office Furniture and Equipment				\$ -		\$ -		\$ -		\$ -
			\$ 234,456.00	\$ -	\$ 234,456.00	\$ -	\$ 234,456.00	\$ -	\$ 234,456.00	\$ -	\$ 234,456.00
	Accumulated Depreciation		6/30/1999 Balance	Additions July-Dec. 09	1999 Balance	Additions 2000	2000 Balance	Additions 2001	2001 Balance	Additions 2002	2002 Balance
354	Structures and Improvements	3.70%	\$ 828.00	\$ 16.96	\$ 844.96	\$ 33.93	\$ 878.89	\$ 33.93	\$ 912.81	\$ 3.19	\$ 916.00
360	Force Mains	3.70%	\$ 4,601.00	\$ 121.26	\$ 4,722.26	\$ 242.52	\$ 4,964.78	\$ 242.52	\$ 5,207.30	\$ 242.52	\$ 5,449.81
361	Gravity Mains	2.50%	\$ 68,002.00	\$ 1,214.26	\$ 69,216.26	\$ 2,428.53	\$ 71,644.79	\$ 2,428.53	\$ 74,073.31	\$ 2,428.53	\$ 76,501.84
363	Services	2.86%	\$ 11,671.00	\$ 235.76	\$ 11,906.76	\$ 471.51	\$ 12,378.27	\$ 471.51	\$ 12,849.79	\$ 471.51	\$ 13,321.30
364	Flow Measuring Devices	20.00%	\$ 842.00	\$ 140.30	\$ 982.30	\$ 280.60	\$ 1,262.90	\$ 140.10	\$ 1,403.00		\$ 1,403.00
365	Flow Measuring Installations	2.86%	\$ 695.00	\$ 13.60	\$ 708.60	\$ 27.20	\$ 735.80	\$ 27.20	\$ 763.00	\$ 27.20	\$ 790.20
370	Receiving Wells	4.00%	\$ 31,696.00		\$ 31,696.00		\$ 31,696.00		\$ 31,696.00		\$ 31,696.00
371	Pumping Equipment	6.67%		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
380	Treatment & Disposal Equipment	6.67%	\$ 69,150.00	\$ 2,443.57	\$ 71,593.57	\$ 1,713.43	\$ 73,307.00		\$ 73,307.00		\$ 73,307.00
382	Outfall Sewer Lines	3.33%	\$ 483.00	\$ 99.83	\$ 582.83	\$ 199.67	\$ 782.50	\$ 199.67	\$ 982.17	\$ 199.67	\$ 1,181.83
390	Office Furniture and Equipment	6.67%		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
			\$ 187,968.00	\$ 4,285.54	\$ 192,253.54	\$ 5,397.38	\$ 197,650.93	\$ 3,543.45	\$ 201,194.38	\$ 3,372.61	\$ 204,566.99

**Staff Calculation of Accumulated Depreciation
Test Year Ended September 30, 2011**

Account Number	Account Title	Rates	2002 Balance	Additions 2003	2003 Balance	Additions 2004	2004 Balance	Additions 2005	2005 Balance	Additions 2006	2006 Balance
Plant											
354	Structures and Improvements		\$ 916.00		\$ 916.00		\$ 916.00		\$ 916.00		\$ 916.00
360	Force Mains		\$ 6,548.00		\$ 6,548.00		\$ 6,548.00		\$ 6,548.00		\$ 6,548.00
361	Gravity Mains		\$ 97,141.00		\$ 97,141.00		\$ 97,141.00		\$ 97,141.00		\$ 97,141.00
363	Services		\$ 16,503.00		\$ 16,503.00		\$ 16,503.00		\$ 16,503.00		\$ 16,503.00
364	Flow Measuring Devices		\$ 1,403.00		\$ 1,403.00		\$ 1,403.00		\$ 1,403.00		\$ 1,403.00
365	Flow Measuring Installations		\$ 952.00		\$ 952.00		\$ 952.00		\$ 952.00		\$ 952.00
370	Receiving Wells		\$ 31,696.00		\$ 31,696.00		\$ 31,696.00		\$ 31,696.00		\$ 31,696.00
371	Pumping Equipment		\$ -		\$ -		\$ -		\$ -		\$ -
380	Treatment & Disposal Equipment		\$ 73,307.00		\$ 73,307.00		\$ 73,307.00		\$ 73,307.00		\$ 73,307.00
382	Outfall Sewer Lines		\$ 5,990.00		\$ 5,990.00		\$ 5,990.00		\$ 5,990.00		\$ 5,990.00
390	Office Furniture and Equipment		\$ -		\$ -		\$ -		\$ -		\$ -
			\$ 234,456.00	\$ -	\$ 234,456.00	\$ -	\$ 234,456.00	\$ -	\$ 234,456.00	\$ -	\$ 234,456.00
Accumulated Depreciation											
			2002 Balance	Additions 2003	2003 Balance	Additions 2004	2004 Balance	Additions 2005	2005 Balance	Additions 2006	2006 Balance
354	Structures and Improvements	3.70%	\$ 916.00		\$ 916.00		\$ 916.00		\$ 916.00		\$ 916.00
360	Force Mains	3.70%	\$ 5,449.81	\$ 242.52	\$ 5,692.33	\$ 242.52	\$ 5,934.85	\$ 242.52	\$ 6,177.37	\$ 242.52	\$ 6,419.89
361	Gravity Mains	2.50%	\$ 76,501.84	\$ 2,428.53	\$ 78,930.36	\$ 2,428.53	\$ 81,358.89	\$ 2,428.53	\$ 83,787.41	\$ 2,428.53	\$ 86,215.94
363	Services	2.86%	\$ 13,321.30	\$ 471.51	\$ 13,792.81	\$ 471.51	\$ 14,264.33	\$ 471.51	\$ 14,735.84	\$ 471.51	\$ 15,207.36
364	Flow Measuring Devices	20.00%	\$ 1,403.00		\$ 1,403.00		\$ 1,403.00		\$ 1,403.00		\$ 1,403.00
365	Flow Measuring Installations	2.86%	\$ 790.20	\$ 27.20	\$ 817.40	\$ 27.20	\$ 844.60	\$ 27.20	\$ 871.80	\$ 27.20	\$ 899.00
370	Receiving Wells	4.00%	\$ 31,696.00		\$ 31,696.00		\$ 31,696.00		\$ 31,696.00		\$ 31,696.00
371	Pumping Equipment	6.67%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
380	Treatment & Disposal Equipment	6.67%	\$ 73,307.00		\$ 73,307.00		\$ 73,307.00		\$ 73,307.00		\$ 73,307.00
382	Outfall Sewer Lines	3.33%	\$ 1,181.83	\$ 199.67	\$ 1,381.50	\$ 199.67	\$ 1,581.17	\$ 199.67	\$ 1,780.83	\$ 199.67	\$ 1,980.50
390	Office Furniture and Equipment	6.67%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
			\$ 204,566.99	\$ 3,369.42	\$ 207,936.41	\$ 3,369.42	\$ 211,305.83	\$ 3,369.42	\$ 214,675.26	\$ 3,369.42	\$ 218,044.68

**Staff Calculation of Accumulated Depreciation
Test Year Ended September 30, 2011**

Account Number	Account Title	Rates	2006 Balance	Additions 2007	2007 Balance	Additions 2008	2008 Balance	Additions 2009	2009 Balance	Additions 2010	2010 Balance
Plant											
354	Structures and Improvements		\$ 916.00		\$ 916.00		\$ 916.00		\$ 916.00		\$ 916.00
360	Force Mains		\$ 6,548.00		\$ 6,548.00		\$ 6,548.00		\$ 6,548.00		\$ 6,548.00
361	Gravity Mains		\$ 97,141.00		\$ 97,141.00		\$ 97,141.00		\$ 97,141.00		\$ 97,141.00
363	Services		\$ 16,503.00		\$ 16,503.00		\$ 16,503.00		\$ 16,503.00		\$ 16,503.00
364	Flow Measuring Devices		\$ 1,403.00		\$ 1,403.00		\$ 1,403.00		\$ 1,403.00		\$ 1,403.00
365	Flow Measuring Installations		\$ 952.00		\$ 952.00		\$ 952.00		\$ 952.00		\$ 952.00
370	Receiving Wells		\$ 31,696.00		\$ 31,696.00		\$ 31,696.00		\$ 31,696.00		\$ 31,696.00
371	Pumping Equipment		\$ -		\$ -		\$ -		\$ -		\$ -
380	Treatment & Disposal Equipment		\$ 73,307.00		\$ 73,307.00		\$ 73,307.00		\$ 73,307.00		\$ 73,307.00
382	Outfall Sewer Lines		\$ 5,990.00		\$ 5,990.00		\$ 5,990.00		\$ 5,990.00		\$ 5,990.00
390	Office Furniture and Equipment		\$ -		\$ -		\$ -		\$ -		\$ -
			<u>\$234,456.00</u>	<u>\$ -</u>	<u>\$234,456.00</u>	<u>\$ -</u>	<u>\$234,456.00</u>	<u>\$ -</u>	<u>\$234,456.00</u>	<u>\$ -</u>	<u>\$234,456.00</u>
Accumulated Depreciation											
354	Structures and Improvements	3.70%	\$ 916.00		\$ 916.00		\$ 916.00		\$ 916.00		\$ 916.00
360	Force Mains	3.70%	\$ 6,419.89	\$ 242.52	\$ 6,662.41	\$ 242.52	\$ 6,904.93	\$ 242.52	\$ 7,147.44	\$ 242.52	\$ 7,389.96
361	Gravity Mains	2.50%	\$ 86,215.94	\$ 2,428.53	\$ 88,644.46	\$ 2,428.53	\$ 91,072.99	\$ 2,428.53	\$ 93,501.51	\$ 2,428.53	\$ 95,930.04
363	Services	2.86%	\$ 15,207.36	\$ 471.51	\$ 15,678.87	\$ 471.51	\$ 16,150.39	\$ 352.61	\$ 16,503.00		\$ 16,503.00
364	Flow Measuring Devices	20.00%	\$ 1,403.00		\$ 1,403.00		\$ 1,403.00		\$ 1,403.00		\$ 1,403.00
365	Flow Measuring Installations	2.86%	\$ 899.00	\$ 27.20	\$ 926.20	\$ 25.80	\$ 952.00		\$ 952.00		\$ 952.00
370	Receiving Wells	4.00%	\$ 31,696.00		\$ 31,696.00		\$ 31,696.00		\$ 31,696.00		\$ 31,696.00
371	Pumping Equipment	6.67%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
380	Treatment & Disposal Equipment	6.67%	\$ 73,307.00		\$ 73,307.00		\$ 73,307.00		\$ 73,307.00		\$ 73,307.00
382	Outfall Sewer Lines	3.33%	\$ 1,980.50	\$ 199.67	\$ 2,180.17	\$ 199.67	\$ 2,379.83	\$ 199.67	\$ 2,579.50	\$ 199.67	\$ 2,779.17
390	Office Furniture and Equipment	6.67%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
			<u>\$218,044.68</u>	<u>\$ 3,369.42</u>	<u>\$221,414.11</u>	<u>\$ 3,368.02</u>	<u>\$224,782.13</u>	<u>\$ 3,223.32</u>	<u>\$228,005.46</u>	<u>\$ 2,870.71</u>	<u>\$230,876.17</u>

**Staff Calculation of Accumulated Depreciation
Test Year Ended September 30, 2011**

Account Number	Account Title	Rates	2010 Balance	Jan-Sept. 2011	2011 Balance	Additions TY	2012 Balance
Plant							
354	Structures and Improvements		\$ 916.00		\$ 916.00		\$ 916.00
360	Force Mains		\$ 6,548.00		\$ 6,548.00	\$ 1,341.50	\$ 7,889.50
361	Gravity Mains		\$ 97,141.00		\$ 97,141.00		\$ 97,141.00
363	Services		\$ 16,503.00		\$ 16,503.00		\$ 16,503.00
364	Flow Measuring Devices		\$ 1,403.00		\$ 1,403.00		\$ 1,403.00
365	Flow Measuring Installations		\$ 952.00		\$ 952.00		\$ 952.00
370	Receiving Wells		\$ 31,696.00	\$ 1,355.05	\$ 33,051.05	\$ 1,427.88	\$ 34,478.93
371	Pumping Equipment		\$ -		\$ -		\$ -
380	Treatment & Disposal Equipment		\$ 73,307.00		\$ 73,307.00		\$ 73,307.00
382	Outfall Sewer Lines		\$ 5,990.00		\$ 5,990.00		\$ 5,990.00
390	Office Furniture and Equipment		\$ -		\$ -		\$ -
			<u>\$234,456.00</u>	<u>\$ 1,355.05</u>	<u>\$235,811.05</u>	<u>\$ 2,769.38</u>	<u>\$ 238,580.43</u>

			2010 Balance	Additions 2011	2011 Balance	Additions TY	2012 Balance	
Accumulated Depreciation								
354	Structures and Improvements	3.70%	\$ 916.00		\$ 916.00		\$ 916.00	
360	Force Mains	3.70%	\$ 7,389.96	\$ 181.89	\$ 7,571.85	\$ 267.36	\$ 7,839.21	
361	Gravity Mains	2.50%	\$ 95,930.04	\$ 1,210.96	\$ 97,141.00		\$ 97,141.00	
363	Services	2.86%	\$ 16,503.00		\$ 16,503.00		\$ 16,503.00	
364	Flow Measuring Devices	20.00%	\$ 1,403.00		\$ 1,403.00		\$ 1,403.00	
365	Flow Measuring Installations	2.86%	\$ 952.00		\$ 952.00		\$ 952.00	
370	Receiving Wells	4.00%	\$ 31,696.00	\$ 20.33	\$ 31,716.33	\$ 82.76	\$ 31,799.09	
371	Pumping Equipment	6.67%	\$ -	\$ -	\$ -	\$ -	\$ -	
380	Treatment & Disposal Equipment	6.67%	\$ 73,307.00		\$ 73,307.00		\$ 73,307.00	
382	Outfall Sewer Lines	3.33%	\$ 2,779.17	\$ 149.75	\$ 2,928.92	\$ 199.67	\$ 3,128.58	
390	Office Furniture and Equipment	6.67%	\$ -	\$ -	\$ -	\$ -	\$ -	
			<u>\$230,876.17</u>	<u>\$ 1,562.93</u>	<u>\$232,439.09</u>	<u>\$ 549.79</u>	<u>\$ 232,988.88</u>	
					Per Ledger	\$225,003.00	\$ -	\$ 225,003.00
						<u>\$ 7,436.09</u>	<u>\$ 549.79</u>	<u>\$ 7,985.88</u>

Finding 6: Contributions-in-Aid-of-Construction (CIAC)

Audit Analysis: According to annual reports from 2001 to 2007, the Utility has been collecting CIAC. However, we do not have any of the ledgers supporting these additions. The current owner has booked CIAC at the balance in Commission Order PSC-00-1163-PAA-SU. The Utility's tariff included a \$450 main extension charge and a \$430 plant capacity charge. This tariff was in effect at June 30, 1999, the end of the last test year.

Commission Order PSC-00-1163-PAA-SU imputed CIAC using the tariff rates in effect for 249 customers. The Utility currently has 315 customers. The total \$880 charge should be imputed for the 66 additional customers. Therefore, additional CIAC of \$58,080 should be recorded.

Additional amortization also needs to be added for the imputed CIAC. The following schedule calculates the adjustment needed.

Year	CIAC Balance	Cumulative CIAC Added	Composite Rate	Amortization Expense	Accumulated Amortization
Additions 2000	\$ 20,240.00	\$ 20,240.00	2.30%	\$ 232.76	\$ 232.76
Additions 2001	\$ 20,240.00	\$ 40,480.00	1.51%	\$ 458.44	\$ 691.20
Additions 2002		\$ 40,480.00	1.44%	\$ 582.91	\$ 1,274.11
Additions 2003		\$ 40,480.00	1.44%	\$ 582.91	\$ 1,857.02
Additions 2004		\$ 40,480.00	1.44%	\$ 582.91	\$ 2,439.93
Additions 2005	\$ 6,160.00	\$ 46,640.00	1.44%	\$ 627.26	\$ 3,067.20
Additions 2006		\$ 46,640.00	1.44%	\$ 671.62	\$ 3,738.81
Additions 2007		\$ 46,640.00	1.44%	\$ 671.62	\$ 4,410.43
Additions 2008	\$ 11,440.00	\$ 58,080.00	1.44%	\$ 753.98	\$ 5,164.41
Additions 2009		\$ 58,080.00	1.37%	\$ 795.70	\$ 5,960.11
Additions 2010		\$ 58,080.00	1.22%	\$ 708.58	\$ 6,668.68
Additions Jan.-Sept. 2011 (3/4 year)		\$ 58,080.00	0.88%	\$ 383.33	\$ 7,052.01
Balance September 30, 2011	\$ 58,080.00			\$ 7,052.01	\$ 7,052.01
Additions Test Year			0.23%	\$ 133.58	
Balance September 30, 2012	\$ 58,080.00			\$ 7,185.60	\$ 7,185.60
Average	\$ 58,080.00			\$ 7,118.80	\$ 7,118.80

Note: Rates have decreased because of fully depreciated plant.

Effect on the General Ledger: The effect on the general ledger follows.

Acct. #	Account	Debit	Credit
320.00	Retained Earnings	\$ 58,080.00	
271.00	CIAC		\$ 58,080.00
271.00	Accumulated Amortization of CIAC	\$ 7,185.60	
	Retained Earnings		\$ 7,185.60

Effect on the Staff Prepared Filing: Average CIAC was increased (credited) by \$58,080. Average Accumulated Amortization was increased (debited) by \$7,118.80. Amortization expense was increased (credited) by \$133.58.

Finding 7: Operating Revenue

Audit Analysis: The Utility did not book any revenue in its 2012 ledger. The 2011 revenue computed by staff was slightly different than the revenue booked because the Utility did not classify its commercial customer as general service revenue. A schedule of revenue from the billing registers compared to the ledger is found in Table 7-1.

Effect on the General Ledger: Since the books are closed, there is no effect to the ledger for this adjustment.

Effect on the Staff Prepared Filing: Residential revenue was increased by \$64,482.68. General Service revenue was increased by \$505.10. Miscellaneous revenue was increased by \$299.01. Late Fees were increased by \$3,080. Customer Deposits were increased by \$240.

Table 7.1

**West Lakeland Wastewater
Billing Report Summary**

	Residential Billed	Tax	Other Charges	Deposits	Deposits Refunded	Late Fee	Total Residential	General	Total
Per Billing Reports									
October-11	\$ 6,898.98	\$ 690.23		\$ 80.00	\$ (40.00)	\$ 308.00	\$ 7,937.21	\$ 40.97	\$ 7,978.18
November-11	\$ 6,759.53	\$ 676.16			\$ (40.00)	\$ 357.00	\$ 7,752.69	\$ 34.12	\$ 7,786.81
December-11	\$ 6,940.71	\$ 690.89		\$ 120.00	\$ (40.00)	\$ 308.00	\$ 8,019.60	\$ 33.07	\$ 8,052.67
January-12	\$ 7,243.96	\$ 718.04	\$ 7.00	\$ 120.00		\$ 287.00	\$ 8,376.00	\$ 34.59	\$ 8,410.59
February-12	\$ 7,262.70	\$ 726.57		\$ 40.00		\$ 350.00	\$ 8,379.27	\$ 35.87	\$ 8,415.14
March-12	\$ 7,093.97	\$ 709.58	\$ 15.00			\$ 364.00	\$ 8,182.55	\$ 39.65	\$ 8,222.20
April-12	\$ 7,346.88	\$ 734.93				\$ 294.00	\$ 8,375.81	\$ 42.84	\$ 8,418.65
May-12	\$ 7,343.21	\$ 734.98	\$ 75.00			\$ 364.00	\$ 8,517.19	\$ 47.23	\$ 8,564.42
June-12	\$ 7,231.22	\$ 723.43	\$ 37.00			\$ 350.00	\$ 8,341.65	\$ 43.23	\$ 8,384.88
July-12	\$ 6,750.65	\$ 675.96	\$ 60.00	\$ 80.00		\$ 378.00	\$ 7,944.61	\$ 48.83	\$ 7,993.44
August-12	\$ 7,169.79	\$ 719.25	\$ 30.01			\$ 336.00	\$ 8,255.05	\$ 50.97	\$ 8,306.02
September-12	\$ 7,117.60	\$ 710.12	\$ 75.00			\$ 357.00	\$ 8,259.72	\$ 53.73	\$ 8,313.45
	\$ 85,159.20	\$ 8,510.14	\$ 299.01	\$ 440.00	\$ (120.00)	\$ 4,053.00	\$ 98,341.35	\$ 505.10	\$ 98,846.45
Per Ledger									
Per Ledger 9/11-12/11	\$ 20,676.52	\$ 2,057.28		\$ 200.00	\$ (120.00)	\$ 973.00			\$ 23,786.80
Per Ledger 1/12-9/12	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Booked	\$ 20,676.52	\$ 2,057.28	\$ -	\$ 200.00	\$ (120.00)	\$ 973.00	\$ -	\$ -	\$ 23,786.80
Difference	\$ 64,482.68	\$ 6,452.86	\$ 299.01	\$ 240.00	\$ -	\$ 3,080.00	\$ 98,341.35	\$ 505.10	\$ 75,059.65

Finding 8: Operations and Maintenance Expense

Audit Analysis: We have made adjustments to test year expenses based on our review of the supporting documentation. A summary of the adjustments follows.

1. The Utility included a late payment of \$13.25 in Account 711-Sludge Hauling. It has been removed in Exhibit 5.
2. The Utility has included penalties and interest of \$596.75 in Account 715-Purchased Power. It has been removed in Exhibit 5.
3. Entries were made in December 2011 to attempt to correct charges between accounts. Because our test year is not the same as the calendar year that was adjusted, these entries include items outside of our test period. Therefore, these entries were reversed in the attached Net Operating Income Schedule. The adjustment increased Account 731-Contract Services Professional by \$14,174.28 and decreased Account 735-Contract Services-Testing by \$728.00 and Account 736-Contract Services-Other by \$13,446.28 in Exhibit 5.
4. The Utility charged two payments to its accountant to expense Account 731-Contract Services Professional that should have been recorded to accounts payable. Account 731-Contract Services Professional was reduced by \$200 in Exhibit 5. The Utility included loan payments on a truck in Account 750-Transportation expense instead of reducing the loan and recording interest. Transportation expense was reduced by \$2,151.49 in Exhibit 5 and interest increased by \$218.72. The loan balance should have been reduced by \$1,932.77. However, the loan was recorded in the Pinecrest Utilities, LLC ledger. Pinecrest is also owned by Mr. Smallridge. The Utility had planned to move all common assets and expenses to a company called Florida Utility Services and allocate the costs to the Utilities it manages. However, during the audit, the truck was totaled. The Utility does not have any plans to replace it at this time. The Utility is using another truck that was purchased in 2011 that is owned by Florida Utility Service.
6. Bank service charges of \$169.40 and \$483.31 included in Accounts 604 and 921.40 were consolidated into Account 921.4 –Bank Charges in Exhibit 5.
7. A charge to Account 921.30-Miscellaneous Charges of \$987.90 for Oakbay Technical was removed and transferred to the common allocations in Exhibit 5. The charge was for two handheld devices used in meter reading and is used for all Utilities except Lake Forest and East Marion.
8. An invoice \$324.15 for chemicals that were out of period was removed from Account 718-Chemicals in Exhibit 5.
9. Account 736-Contract Services-Other included \$600 for an original cost study. This cost is not re-occurring and was removed in Exhibit 5.
10. Account 775-Miscellaneous Expense included a credit of \$609.11 that did not relate to any charges in the test period and no support could be found for it. It was removed in Exhibit 5.

Effect on the General Ledger: Since the books are closed, there is no effect to the ledger for these adjustments.

Effect on the Staff Prepared Filing: Operating Expenses were reduced by \$4,264.43.

Finding 9: Operations and Maintenance Expense-Pro Forma

Audit Analysis: Several items were adjusted by staff in the Pro Forma column of the attached Net Operating Income Schedule. A summary of the adjustments follows.

1. The Florida Rural Water Association did a video of the collection system. Based on a letter from the Association, the Utility is using Root X six times a year for a cost of \$814.20 (135.70 each treatment). The Utility has purchased the supplies for the first treatment. The cost is included Exhibit 5.
2. Account 775-Miscellaneous Expense included garbage expense for the Utility plant for 15 months. We removed \$744.55 for the 15 months and annualized the current bill of \$52.09 for 12 months. The account was increased by \$625.08. There was a net decrease of \$119.47 to the account in Exhibit 5.
3. The actual insurance policy for the West Lakeland Plant which was charged to Account 755-Insurance Expense was less than insurance expense recorded by \$292.48. We reduced the expense to the current invoice in Exhibit 5. Truck insurance is addressed in the common cost finding.
4. The Utility plans to file annual indexing filings. Its accountant charges \$400 for this service and that charge was included in the adjustments to Net Operating Income. In addition, the \$1,000 rate case fee for this case was amortized over four years at \$250 a year in Exhibit 5.
5. The Utility has hired a meter reader as of December 2012 and is paying \$305 a month flat fee for this service. This increases Account 736-Contract Services by \$3,660 in Exhibit 5.

Effect on the General Ledger: Since the books are closed, there is no effect to the ledger for these adjustments.

Effect on the Staff Prepared Filing: Operating expenses were increased by \$4,712.25.

Finding 10: Common Costs

Audit Analysis: Mr. Smallridge manages Alturas Utilities, LLC and Sunrise Utilities, LLC. He owns Pinecrest Utilities, LLC and West Lakeland Wastewater, LLC. He is also managing Four Points Utility Corporation (Four Points) and Bimini Bay Utilities (Bimini Bay) while they are in receivership. He does the billing for Lake Forest Utility (Lake Forest) and East Marion Sanitary Systems (East Marion). During the test year, the Utility recorded expenses from several employees as contract services and booked them to each Utility. He also allocated some invoices for common costs. The employees providing the services in the test year have changed and the allocation of costs were not consistent. As of January 1, 2013, Mr. Smallridge is recording common costs in a company called Florida Utility Service. The common costs are going to be allocated from this company. He is currently paying two employees as salaried employees and himself and his bookkeeper as contractors. We have annualized his current costs on Table 10-1 on the following page and allocated the costs based on number of customers. The maintenance employee has not been allocated to Lake Forest and East Marion. We are removing the actual test year costs and including the projected costs as a Pro Forma adjustment.

However, the County is considering purchasing Four Points and Bimini Bay. If these two Utilities are purchased, the fixed costs will be allocated to fewer Utilities and the costs will increase. According to the Utility, these costs are fixed and cannot be decreased. If Mr. Smallridge continues to manage Four Points and Bimini Bay, the Utility expects to hire additional maintenance personnel that will need to be charged directly to those Utilities. Therefore, we have provided both the allocated costs using the current allocations and the costs if Four Points and Bimini Bay are sold. If this occurs before this case closes, expenses will need to be increased.

The first schedule that follows provides the allocation based on number of customers both with and without Four Points and Bimini Bay. The second schedule provides the rate base additions allocated and the third schedule provides the expenses allocated.

Included in the expenses allocated is a salary for the owner/manager, Mr. Smallridge. Mr. Smallridge has requested a salary of \$60,000 to be allocated to all the Utilities he owns/manages. This amount is in the range provided in the 2008 Compensation Survey issued by the American Water Works Association. He has also requested a \$5,500 contribution to a pension fund. The pension contribution has not been paid yet.

Mr. Smallridge has provided quotes for health insurance for the two employees. He has received estimates with a \$2,500 deductible, a \$3,000 deductible, and a \$5,000 deductible. The \$5,000 deductible would cost Florida Utility Service \$8,388 a year. The \$3,000 deductible would cost \$11,904 a year, and the \$2,500 deductible would cost \$14,136 a year. No decision has been made on purchasing insurance at this time. If Mr. Smallridge does provide invoices, actual costs should be allocated based on the customer allocations on the attached schedules. No adjustment to include employee insurance cost has been included in this report.

Effect on the General Ledger: Since the books are closed, there is no effect to the ledger for this adjustment.

Effect on the Staff Prepared Filing: Average Plant was increased by \$542.13. Average Accumulated Depreciation was increased (credited) by \$41.79. Operating expenses were increased by \$7,451.51. Depreciation Expense was increased by \$75.26.

Allocation Percentages Used for Common Costs

Allocation Percentages Used Common Costs	Active Customers	% of Customers
To be used for Billing and Fixed Costs:		
Alturas Utilities	59	4.24%
Bimini Bay Utilities	201	14.45%
Four Points Utilities	258	18.55%
East Marion Sanitary Systems	91	6.54%
Lake Forest Utilities	66	4.74%
Pinecrest Utilities	145	10.42%
Sunrise Utilities	259	18.62%
West Lakeland	312	22.43%
	1,391	100.00%
To be Used for Billing if Bimini Bay and Four Points are sold:		
Alturas Utilities	59	6.33%
Lake Forest Utilities	66	7.08%
East Marion Sanitary Systems	91	9.76%
Pinecrest Utilities	145	15.56%
Sunrise Utilities	259	27.79%
West Lakeland	312	33.48%
	932	100.00%
For Non billing related costs: (new maintenance man)		
Alturas Utilities	59	4.78%
Bimini Bay Utilities	201	16.29%
Four Points Utilities	258	20.91%
Pinecrest Utilities	145	11.75%
Sunrise Utilities	259	20.99%
West Lakeland	312	25.28%
	1,234	100.00%
For Non billing related costs: (new maintenance man)		
Alturas Utilities	59	7.61%
Pinecrest Utilities	145	18.71%
Sunrise Utilities	259	33.42%
West Lakeland	312	40.26%
	775	100.00%

Allocated Plant

Account		Plant	Acc. Dep.	Dep. Exp.
6 yr dep	Transportation Equipment	\$ 2,435.50	\$ 202.96	\$ 202.96
15 yr dep	Meter Reading Equipment	\$ 987.90	\$ 98.79	\$ 65.86
15 yr dep	Office Furniture & Equipment	\$ 865.00	\$ 28.83	\$ 28.83
		\$ 4,288.40	\$ 330.58	\$ 297.65
25.28%	West Lakeland Allocation	\$ 1,084.26	\$ 83.58	\$ 75.26
	Average	\$ 542.13	\$ 41.79	
40.26%	West Lakeland Alloc. If sell 4 Pt. Bim	\$ 1,726.43	\$ 133.09	\$ 119.83

Allocated Expenses

Account	Amount	Description	22.43% West Lakeland Current Allocation	33.48% West Lakeland 4Pt & Bimini Bay Sale
Pension and Benefits	\$ 5,500.00	Mike Smallridge Ira Contribution	\$ 1,233.65	\$ 1,841.40
Rent	\$ 6,792.36	Rent on new office	\$ 1,523.53	\$ 2,274.08
Cell phone	\$ 1,694.04	Mike Smallridge cell phone \$155/month +126.88 2nd month	\$ 379.97	\$ 567.16
AutoDialer	\$ 944.88	Per bank charges	\$ 211.94	\$ 316.35
Office Supplies	\$ 4,800.00	Average of three months Quill bills	\$ 1,076.64	\$ 1,607.04
Electric Office	\$ 1,384.56	based on February bill	\$ 310.56	\$ 463.55
Internet and Phone Office	\$ 3,126.72	Bighthouse January 2013	\$ 701.32	\$ 1,046.83
PO Box	\$ 180.00	Based on Invoice	\$ 40.37	\$ 60.26
Insurance	\$ 398.12	Insurance on truck	\$ 89.30	\$ 133.29
Vehicle Repairs	\$ 584.31	Tune up on used vehicle purchased	\$ 131.06	\$ 195.63
Contract Labor-Bookkeeping	\$ 36,400.00	Dyanne 17.50/hour	\$ 8,164.52	\$ 12,186.72
Salaries Billing	\$ 19,760.00	Natalie	\$ 4,432.17	\$ 6,615.65
FICA on Natalie	\$ 1,511.64	Calculated 7.65%	\$ 339.06	\$ 506.10
Salary President	\$ 60,000.00	Mike Smallridge Salary	\$ 13,458.00	\$ 20,088.00
	\$ 143,076.63		\$ 32,092.09	\$ 47,902.06
			25.28%	40.26%
Salaries Maintenance	\$ 22,880.00	Matthew Andrews-Allocated nonbilling rate	\$ 5,784.06	\$ 9,211.49
FICA on Mathew	\$ 1,750.32	Calculated 7.65%	\$ 442.48	\$ 704.68
	\$ 167,706.95		\$ 38,318.89	\$ 57,818.63
Actual Booked:				
715-Purchased Power			\$ 581.54	\$ 581.54
731-Contract Services			\$ 1,745.00	\$ 1,745.00
736-Contract Services			\$ 23,739.07	\$ 23,739.07
740-Rent			\$ 262.70	\$ 262.70
775-Miscellaneous			\$ 4,478.32	\$ 4,478.32
921.2-Office Supplies			\$ 99.40	\$ 99.40
921-Admin. & General			\$ (38.65)	\$ (38.65)
			\$ 30,867.38	\$ 30,867.38
Increase in Expenses			\$ 7,451.51	\$ 26,951.25

Finding 11: Bad Debt Expense

Audit Analysis: January 4, 2013, the Utility had \$20,607.46 of past due accounts receivable. \$19,327.46 of this amount was for accounts over sixty days past due. According to the Utility's records, some of the customers have never paid since Mr. Smallridge took over the Utility in 2009. The Utilities' tariff allows for recovery of actual costs if the Utility disconnects the customer from service. Mr. Smallridge did not receive any deposits from the customers that were received before the transfer. The schedule of current customer deposits only totals \$515. Therefore, the Utility does not have sufficient deposits to cover the past due accounts. How much bad debt the Utility will have on a normal basis will depend on the steps taken to solve the problems causing the large past due balance. Therefore, we have not included any bad debt expenses in the attached schedules and defer this item to the analysts in Tallahassee.

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

Effect on the Filing: This finding is for informational purposes only.

Finding 12: Transportation Expense

Audit Analysis: Transportation Expense for West Lakeland was reviewed. The Utility included truck payments in the account instead of reducing the loan. These payments were removed in Finding 8. After removal of these costs, the account which was mostly for gasoline expense, still appeared high based on the 6.6 miles from the office. According to Mr. Smallridge, he does not charge his personal gasoline or transportation to the Utility. The expense only relates to the gasoline for the maintenance truck. Since the maintenance employee services all the plants Mr. Smallridge maintains except Lake Forest and East Marion, his transportation costs should be recorded in all the Utilities except Lake Forest and East Marion. Because Mr. Smallridge is the receiver of Bimini Bay and Four Points, he bills the Court based on miles. We obtained the transportation costs recorded in each Utility's ledger as follows:

Utility	TY Expense	% Charged
Alturas Utilities		0%
Bimini Bay Utilities		0%
Four Points Utilities	\$ 544.00	7%
Pinecrest Utilities	\$ 1,432.96	17%
Sunrise Utilities	\$ 214.18	3%
West Lakeland	\$ 6,119.12	74%
	\$ 8,310.26	100%

Based on these costs, it does not appear that the transportation expenses were reasonably allocated. We compared the actual costs to a customer allocation.

	TY Expense	% Charged	Customers	% Customers	Allocate Based on Customers
Alturas Utilities		0%	59	4.78%	\$ 397.33
Bimini Bay Utilities		0%	201	16.29%	\$ 1,353.62
Four Points Utilities	\$ 544.00	7%	258	20.91%	\$ 1,737.48
Pinecrest Utilities	\$ 1,432.96	17%	145	11.75%	\$ 976.49
Sunrise Utilities	\$ 214.18	3%	259	20.99%	\$ 1,744.21
West Lakeland	\$ 6,119.12	74%	312	25.28%	\$ 2,101.14
	\$ 8,310.26	100%	1,234	100.00%	\$ 8,310.26

However, a customer allocation is probably not a reasonable allocation either because West Lakeland Wastewater probably involves more site visits than the water plants. The staff engineer should determine a more reasonable allocation based on frequency. We have not adjusted the expense of \$6,119.12.

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

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

Finding 13: Taxes Other than Income

Audit Analysis: Based on the revenue determined in Finding 10, the Regulatory Assessment Fees were computed as follows.

Residential Revenue	\$ 85,158.20
Miscellaneous Revenue	\$ 299.01
Late Fees	\$ 4,053.00
General Service Revenues	\$ 505.10
Total	\$ 90,015.31
Regulatory Assessment Fee Rate	4.5%
Regulatory Assessment Fee	\$ 4,050.69
Paid in Test Year	\$ 5,548.74
Difference	\$ (1,498.05)

Because of the timing differences between the test year and the fiscal year that the fees are paid on, and the penalties and interests paid by the Utility, there is a difference between the imputed fees and fees paid. Taxes Other than Income were reduced by \$1,498.05 to reflect the imputed Regulatory Assessment Fee.

We also obtained the 2012 property tax bill for the Utility plant. The November payment due is \$802.85. The Utility recorded \$867.48 in the test year for property taxes. Taxes Other than Income were reduced by \$64.63 to reflect the current taxes due.

Effect on the General Ledger: Since the books are closed, there is no effect to the ledger for this adjustment.

Effect on the Filing: Taxes Other than Income were reduced by \$1,562.68.

Exhibits

Exhibit 1: Average Rate Base

West Lakeland Wastewater, LLC.

Test Year Ended September 30, 2012

Account Title	Average Test Year 9/11 and 9/12	Test Year Staff Adjustments	Test Year Average Per Staff	Pro Forma Adjustments	Average With Pro Formas
Land	\$ 356.00	\$ -	\$ 356.00		\$ 356.00
Total Plant	\$ 237,195.78	\$ 4,482.00	\$ 241,677.77	\$ 12,061.58	\$ 253,739.35
Total Accumulated Depreciation	\$ (225,003.00)	\$ (2,937.57)	\$ (227,940.57)	\$ (704.65)	\$ (228,645.22)
CIAC	\$ (163,400.00)	\$ (58,080.00)	\$ (221,480.00)		\$ (221,480.00)
Total Accumulated Amortization	125,305.00	(11,736.30)	113,568.70	0.00	\$ 113,568.70
Working Capital					\$ 11,760.16
Total Wastewater Rate Base	(25,546.23)	(68,271.88)	(93,818.10)	11,356.93	(70,701.01)

Exhibit 2: Adjustments to Rate Base

West Lakeland Wastewater, LLC.

Test Year Ended September 30, 2012

Account Number	Account Title	Debit(Credit)	Finding	Description
Test Year				
370.00	Receiving Wells	\$ (1,551.74)	Finding 1	Retire Pump
370.00	Receiving Well	\$ 7,370.67	Finding 2	Plant Additions Never Booked
370.00	Receiving Well	\$ (3,816.50)	Finding 2	Retirements for Additions Never Booked
380.00	Treatment and Disposal Equipment	\$ 2,479.57	Finding 2	Plant Additions Never Booked
		\$ 4,482.00		
108.00	Accumulated Depreciation	\$ 1,598.02	Finding 1	Retire Pump
108.00	Accumulated Depreciation	\$ (7,710.98)	Finding 5	Compute Depreciation
108.00	Acc. Dep. Receiving Well	\$ 3,816.50	Finding 2	Retirements for Additions Never Booked
108.00	Accumulated Depreciation Receiving Well	\$ (352.69)	Finding 2	Depreciation on Additions Never Booked
108.00	Accumulated Depreciation T & D	\$ (289.43)	Finding 2	Depreciation on Additions Never Booked
		\$ (2,938.57)		
271.00	CIAC	\$ (58,080.00)	Finding 6	Impute CIAC
271.00	Accumulated Amortization of CIAC	\$ (18,855.11)	Finding 5	Compute Amortization
271.00	Accumulated Amortization of CIAC	\$ 7,118.80	Finding 6	Compute Amortization Imputed CIAC
		\$ (11,736.31)		
Proforma				
300.00	Plant-Allocated	\$ 542.13	Finding 10	Increase for Common Expenses
361.00	Gravity Mains	\$ 2,530.00	Finding 3	Raise Manholes
371.00	Pumping Equipment	\$ 8,022.91	Finding 3	Lift Station Rehab
380.00	Treatment and Disposal Eq.	\$ 966.54	Finding 3	Check Valve Replacement
		\$ 12,061.58		
108.00	Accumulated Depreciation	\$ (535.13)	Finding 3	Lift Station Rehab
108.00	Accumulated Depreciation	\$ (64.47)	Finding 3	Check Valve Replacement
108.00	Accumulated Depreciation	\$ (63.25)	Finding 3	Raise Manholes
108.00	Accumulated Depreciation Allocated	\$ (41.79)	Finding 10	Increase for Common Expenses
		\$ (704.64)		

Exhibit 3: Average Capital Structure

West Lakeland Wastewater, LLC.

Test Year Ended September 30, 2012

	Test Year Average Books	Staff Adjustments	Staff Adjusted Balance	Rate Base	% of Rate Base	Rate	Composite Rate
Long Term Debt	\$ (6,225.00)	\$ 6,225.00	\$ -	\$ -			
Equity	\$ (77,764.78)	\$ 62,397.89	\$ (15,366.89)	\$ (70,383.50)	99.55%	8.36%	8.32%
Customer Deposits	\$ (317.50)		\$ (317.50)	\$ (317.50)	0.45%	6.00%	0.03%
	\$ (84,307.28)	\$ 68,622.89	\$ (15,684.39)	\$ (70,701.00)	100.00%		8.35%

Note: Rate Base is negative.

Exhibit 4: Net Operating Income

West Lakeland Wastewater, LLC.

Test Year Ended September 30, 2012

Account Title	10/1/11-9/30/12 Test Year Expense	Staff Adj.	Test Year Balance Staff	Proforma Adjustments	Test Year With Proformas
Revenue	\$ (21,649.52)	\$ (68,366.78)	\$ (90,016.30)	\$ -	\$ (90,016.30)
Total Operating Expense	\$ 86,181.99	\$ (4,264.43)	\$ 81,917.56	\$ 12,163.76	\$ 94,081.32
Taxes Other Than Income	\$ 6,612.72		\$ 6,612.72	\$ (1,562.64)	\$ 5,050.08
Depreciation Expense	\$ -	\$ 773.85	\$ 773.85	\$ 738.11	\$ 1,511.96
Amortization Expense	\$ -	\$ (509.40)	\$ (509.40)		\$ (509.40)
Depreciation Expense	\$ -	\$ 264.45	\$ 264.45	\$ 738.11	\$ 1,002.56
Income Tax	\$ -		\$ -		\$ -
Above the Line Net Loss	\$ 71,145.19	\$ (72,366.76)	\$ (1,221.57)	\$ 11,339.23	\$ 10,117.66

Exhibit 5: Net Operating Income Adjustments

West Lakeland Wastewater, LLC.

Test Year Ended September 30, 2012

403.00	Depreciation Expense	\$ 142.17	Finding 2	Depreciation on Additions Never Booked
403.00	Depreciation Expense	\$ 165.39	Finding 2	Depreciation on Additions Never Booked
		\$ 773.85		
403.10	Amortization Expense	\$ (375.82)	Finding 5	Compute Amortization
403.10	Amortization Expense	\$ (133.58)	Finding 5	Compute Amortization Imputed CIAC
		\$ (509.40)		
522.10	Residential Revenues	\$ (64,559.98)	Finding 7	Record 2012 Revenues
522.10	Residential Revenues	\$ 77.30	Finding 7	Correct 2012 Revenues
522.20	General Service Revenues	\$ (396.94)	Finding 7	Record 2012 Revenues
522.20	General Service Revenues	\$ (108.16)	Finding 7	Correct 2012 Revenues
536.10	Late Fees	\$ (3,080.00)	Finding 7	Record 2012 Revenues
536.20	Initial Connection Visit	\$ (269.00)	Finding 7	Record 2012 Revenues
536.30	Premise Visit	\$ (30.00)	Finding 7	Record 2012 Revenues
		\$ (68,366.78)		
604.00	Bank Service Charges	\$ (169.40)	Finding 8	Charge Bank Fees to One Acct.
604.00	Bank Service Charges	\$ 483.31	Finding 8	Charge Bank Fees to One Acct.
711.00	Sludge Hauling	\$ (13.25)	Finding 8	Remove Late Fee
715.00	Purchased Power	\$ (596.75)	Finding 8	Remove Penalties and Common
731.00	Contract Services Professional	\$ 14,174.28	Finding 8	Reverse Correcting Entries
731.00	Contract Services Professional	\$ (200.00)	Finding 8	Correct Payable Entry
735.00	Contract Services Testing	\$ (728.00)	Finding 8	Reverse Correcting Entries
736.00	Contract Services Other	\$ 728.00	Finding 8	Reverse Correcting Entries
736.00	Contract Services Other	\$ (14,174.28)	Finding 8	Reverse Correcting Entries
750.00	Transportation Expense	\$ (2,151.49)	Finding 8	Correct Truck Loan Payments
921.30	Expense	\$ (987.90)	Finding 8	Moved to Common Allocation
921.40	Bank Service Charges	\$ (483.31)	Finding 8	Charge Bank Fees to One Acct.
718.00	Chemicals	\$ (324.15)	Finding 8	Remove Out of Period Chemicals
736.00	Contract Services Other	\$ (600.00)	Finding 8	Remove Non-recurring
775.00	Miscellaneous Expense	\$ 609.11	Finding 8	Remove Misclassification
921.40	Bank Service Charges	\$ 169.40	Finding 8	Charge Bank Fees to One Acct.
		\$ (4,264.43)		

Exhibit 5: Net Operating Income Adjustments Continued -Pro Forma

West Lakeland Wastewater, LLC.

Test Year Ended September 30, 2012

Account Number	Account Title	Debit(Credit)	Finding	Description
Proforma				
403.00	Depreciation Expense	\$ 535.13	Finding 3	Lift Station Rehab
403.00	Depreciation Expense	\$ 64.47	Finding 3	Check Valve Replacement
403.00	Depreciation Expense	\$ 63.25	Finding 3	Raise Manholes
403.00	Depreciation Expense	\$ 75.26	Finding 10	Increase for Common Expenses
		\$ 738.11		
408.00	Regulatory Assessment Fees	\$ (1,498.01)	Finding 13	RAF based on Test Year Revenue
408.00	Property Tax	\$ (64.63)	Finding 13	Property Tax Bill Adj.
		\$ (1,562.64)		
715.00	Purchased Power	\$ (581.54)	Finding 10	Remove Common Expenses
718.00	Chemicals	\$ 814.20	Finding 9	Root Treatment
731.00	Contract Services Prof. Bill	\$ (1,745.00)	Finding 10	Remove Common Expenses
736.00	Contract Services Other	\$ (23,739.07)	Finding 10	Remove Common Expenses
736.00	Contract Services Other	\$ 38,318.89	Finding 10	Increase for Common Expenses
736.00	Contract Services Other	\$ 3,660.00	Finding 9	Record New Meter Reader
740.00	Rents	\$ (262.70)	Finding 10	Remove Common Expenses
755.00	Insurance Expense	\$ (292.48)	Finding 9	Reduce Insurance to Actual
775.00	Miscellaneous Expense	\$ (4,478.32)	Finding 10	Remove Common Expenses
775.00	Miscellaneous Expense	\$ (744.55)	Finding 9	Remove 15 Months Garbage
775.00	Miscellaneous Expense	\$ 625.08	Finding 9	Increase for 12 Months Garbage
921.00	Administrative and General	\$ 38.65	Finding 10	Remove Common Expenses
921.20	Office Supplies	\$ (99.40)	Finding 10	Remove Common Expenses
928.00	Regulatory Expenses	\$ 250.00	Finding 9	Amt. Current Rate Case Cost
928.00	Regulatory Expenses	\$ 400.00	Finding 9	Include Indexing Cost
		\$ 12,163.76		