

State of Florida



Public Service Commission

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

Auditor's Report

Country Club Utilities, Inc.
Staff-Assisted Rate Case

Twelve Months Ended December 31, 2013

Docket No. 120172-WS
Audit Control No. 14-128-2-1

October 1, 2014

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Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
Audit Findings	
1: Utility Books and Records.....	7
2: Utility Plant in Service.....	8
3: Pro Forma Plant	11
4: Land and Land Rights.....	12
5: CIAC and Accumulated Amortization of CIAC.....	14
6: Accumulated Depreciation.....	15
7: Acquisition Adjustment	17
8: Capital Structure	18
9: Billing System.....	19
10: Miscellaneous Revenues.....	20
11: Operation and Maintenance Expense.....	21
12: Pro Forma O&M Expense	25
13: Taxes Other than Income	26
Exhibits	
1: Rate Base	27
2: Capital Structure	28
3: Net Operating Income.....	29

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 May 2, 2014. We have applied these procedures to the attached schedules prepared by the audit staff in support of Country Club Utilities, Inc.'s request for a Staff Assisted Rate Case in Docket No.120172-WS.

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

General

Definitions

Utility refers to Country Club Utilities, Inc.

Test year refers to the 12-months ended December 31, 2013.

Company Background

Country Club Utilities, Inc. is a Class C Utility that provides water and wastewater services in Highlands County. The Utility serves approximately 393 water customers and 391 wastewater customers. Water and wastewater revenues totaled \$143,015 and \$98,166, respectively, in the 2013 Annual Report filed by the Utility.

The prior owner, Country Club of Sebring, purchased the water and wastewater systems in a foreclosure proceeding in 1989. The Utility was granted original Certificate Nos. 540-W and 468-S under the name Country Club of Sebring. Initial rates and charges were established in Order No. 25788, issued February 24, 1992, in Docket No. 910792-WS.

In February 2007, the Commission approved the Utility's application for transfer of majority organizational control (Order No. PSC-07-0121-FOF-WS, issued February 12, 2007, in Docket No. 060352-WS). Ownership for the family-owned Utility was then transferred from Mr. Roland A. Harris, the father, to Mr. R. Greg Harris, the son. Rate base had not been previously established by the Commission nor was it established at this time.

The Utility requested a Staff Assisted Rate Case in 2012. Audit Staff completed an audit, Audit Control No. 12-208-2-1, with a test year of 12-months ended June 30, 2012. This audit was issued on January 3, 2013. This audit and the subsequent analysis by technical staff showed that the Utility was not operating at a loss and thus a revenue increase was not warranted.

At the March 13, 2014 agenda, staff recommended that due to various circumstances, the request for a Staff Assisted Rate Case be dismissed and this docket be closed. The Commissioners denied this request. Technical staff requested a new audit with a test year of 12 months ended December 31, 2013. This is that audit.

Utility Books and Records

Objectives: The objectives were to determine whether the Utility maintained its books and records in conformity with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA)

Procedures: We examined the Utility's books and records and determined that they are not in compliance the NARUC USOA. Our recommendations are discussed in Finding 1.

Rate Base

Utility Plant in Service

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

Procedures: We scheduled UPIS activity from January 1, 2000, to December 31, 2013. We traced asset additions and retirements to supporting documentation and to the general ledger. We determined the year-end UPIS balance as of December 31, 2013. We reviewed supporting documentation for assets acquired subsequent to the test year. Our recommended adjustments to UPIS are discussed in Findings 2 and 3.

Land & Land Rights

Objectives: The objectives were to determine whether utility land is: 1) Recorded at original cost, 2) Owned or secured under a long-term lease and 3) Recorded in compliance with the NARUC USOA.

Procedures: We obtained the balances for water and wastewater Land as of December 31, 2013. We searched the Highlands County Clerk of Court's official records to verify ownership of the Utility and for activity related to purchases or sales of utility land. We traced Land balances to the trial balance. We determined the year-end Land balances as of December 31, 2013. Our recommended adjustments to Land are discussed in Finding 4.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether Contributions-in-Aid-of-Construction (CIAC) is recorded correctly and is in compliance with the Utility's Commission approved service availability charges.

Procedures: We reconciled the general ledger balance to the Utility's 2013 Annual Report and prior Auditor's Report for test year 2012. We determined that there were neither developer agreements nor CIAC added since 2007. Our recommended adjustments to CIAC are discussed in Finding 5.

Accumulated Depreciation

Objectives: The objectives were to determine whether Accumulated Depreciation accruals are properly calculated and recorded based on Commission rules and the NARUC USOA and that retirements are properly recorded.

Procedures: Using the UPIS balances determined by audit staff, we calculated the annual accruals to Accumulated Depreciation as of December 31, 2013, using the depreciation rates established by Rule 25-30.140(2), Florida Administrative Code (F.A.C.). We prepared a schedule of Accumulated Depreciation with year to year net additions. We compared test year Accumulated Depreciation balances in the general ledger to audit staff's recalculated balances. We recorded retirements when applicable following Commission rules. Our recommended adjustments to Accumulated Depreciation are discussed in Finding 6

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether Accumulated Amortization of CIAC accruals are properly calculated and recorded based on Commission rules and the NARUC USOA.

Procedures: We obtained the beginning balances for water and wastewater Accumulated Amortization of CIAC as of January 1, 2000. We recalculated the amortization accruals for CIAC using the depreciation rate as required by Commission rule. We determined the year end Accumulated Amortization of CIAC balances as of December 31, 2013. Our recommended adjustments to Accumulated Amortization of CIAC are discussed in Finding 5.

Acquisition Adjustment

Objectives: The objectives were to determine whether an Acquisition Adjustment was approved by the Commission and properly accounted for by the Utility.

Procedures: We agreed the Acquisition Adjustment and related amortization to the Utility's 2013 Annual Report and general ledger. We reviewed all Commission Orders relating to the transfer of the ownership of the Utility. Our recommended adjustment to the Acquisition Adjustment is discussed in Finding 7.

Property Held for Future Use

Objective: The objective was to determine whether the Construction Work in Progress (CWIP) property reported in the 2012 audit was placed in service.

Procedures: We inquired about the status of the wastewater surge tank previously identified as CWIP to determine if it was placed in service. This is discussed in Finding 2.

Working Capital

Objectives: The objective was to determine the Utility's Working Capital balance per Commission rule.

Procedures: We calculated the Utility's Working Capital allowance as of December 31, 2013, using one-eighth of audit staff's calculated O&M Expense as required by Rule 25-30.433(2), F.A.C.

Capital Structure

Objectives: The objectives were to determine the Utility's Capital Structure and cost rates needed to arrive at an overall weighted cost of capital.

Procedures: We scheduled the Utility's Capital Structure using information extracted from the Utility's federal tax returns and general ledger. We determined that the Utility's Capital Structure is composed of long-term debt, the content of which is significant in nature. We determined the year-end Capital Structure balances and its weighted average cost as of December 31, 2013. We discuss this further in Finding 8.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether the Utility's test year revenues are recorded in compliance with Commission rules and calculated using Commission approved rates.

Procedures: We obtained the Utility's billing register and summarized the billing and usage data for the test year by customer code, route number, and meter size to develop a billing determinant report. We recalculated test year revenues based on consumption data and billing determinants using the Utility's authorized tariff rates. We identified those customers not properly billed for utility services. Our recommended adjustments to Revenue are discussed in Finding 10.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether the Utility's Operation and Maintenance (O&M) Expense is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We reviewed O&M Expenses recorded in the 2013 general ledger. We obtained invoices, canceled checks, and receipts where available. We traced each to the general ledger noting invoice amount, purpose of the expense, account charged and whether a late fee or interest was incurred and paid. We compared test year balances from the Utility's trial balance to the general ledger. We reviewed the current methodology for allocating costs between water and wastewater operations with the Utility's owner. We identified current employees and contractual professionals and their responsibilities. We discussed and proposed pro forma O&M Expense to the Utility's owner. We evaluated the cost of office space per square foot in the Highlands County vicinity. We summarized all O&M Expenses by account, noting items requiring reclassifications and adjustments. Our recommendations to O&M Expenses are discussed in Findings 11 and 12.

Depreciation and CIAC Amortization Expense

Objectives: The objectives were to determine whether Depreciation Expense and CIAC Amortization Expense are properly calculated and recorded in compliance with the NARUC USOA.

Procedures: We calculated the Utility's Depreciation Expense and CIAC Amortization Expense for the test year-ended December 31, 2013, using the rates established by Rule 25-30.140 - Depreciation, F.A.C. Our recommended adjustments to Depreciation and Amortization Expenses are discussed in Findings 5 and 6.

Taxes Other than Income

Objectives: The objectives were to determine the proper amounts for Taxes Other Than Income (TOTI) and ensure that TOTI Expenses are representative of ongoing utility operations.

Procedures: We compiled TOTI Expense for the test year 2013 by calculating the Regulatory Assessment Fee (RAF) due based on the test year revenues. We calculated an appropriate amount for real estate taxes based on discounts lost and pursuant to Finding 4. We reviewed and recalculated the Utility's 2013 RAF Returns. Our recommended adjustments to TOTI are discussed in Finding 13.

Audit Findings

Finding 1: Utility Books and Records

Audit Analysis: The Utility's books and records are not maintained in accordance with NARUC USOA procedures. As a result, an inordinate amount of time was spent by audit staff in completing relevant analyses and reconciliation required in a SARC. Additionally, the documentation provided was not sufficient to support the Utility's books and records. The following outlines the deficiencies which surfaced throughout the audit.

- Although NARUC Account numbers are not used in either the trial balance or the general ledger, the account numbering system the Utility does use was used inconsistently by the Utility. In a number of instances audit staff could not trace the ledger amounts to source documents because of the lack of detail on an account level in the ledger.
- Adequate detail and documentation were not retained by the Utility. As a result, adjustments were made for unsupported transactions affecting both plant and expense accounts.
- Information and data obtained from the Utility was not organized and presented in a manner that was readily useable by audit staff. This increased audit staff time to perform the audit.

Effect on the General Ledger: None.

Effect on Staff Prepared Exhibits: None.

Finding 2: Utility Plant in Service

Audit Analysis: Journal entries were posted to the general ledger in 2005 recording \$1,444,855 and \$631,624 for water and wastewater UPIS, respectively, to allocate the purchase price when Mr. Harris purchased the Utility from his father. Rate base had never been established by the Commission for the Utility. The Utility's 2013 general ledger and 2013 Annual Report reflected UPIS balances net of Land of \$1,545,336 and \$645,455 for water and wastewater, respectively.

- **Water** - Using the financial records provided by the Utility, audit staff documented plant balances totaling \$146,735 as of December 31, 2013. The review found that the Utility did not have supporting documentation for the cost of the original well that was constructed in 1984. The Utility had supporting documentation for the second well, which was constructed in 2000. However, the well collapsed in 2001 and was taken out of service. Audit staff retired the well at a cost of \$6,590 in 2012. The Utility provided supporting documentation associated with a portion of the cost of a third well that was constructed in 2012.

The Utility incurred \$9,050 of testing costs required by the Florida Department of Environmental Protection (FDEP) that are required with the installation of a new third well. These test costs were capitalized. The Utility did not provide any historical invoices for meter replacement, but indicated that about six meters were replaced each year. Audit staff imputed the cost of three meters for the second half of 2012 and six meters for 2013 (elapsed time period since the last audit) based on the prices of an actual 2014 (post-audit) invoice provided by the Utility. The nine replaced meters were retired at 75 percent of cost.

- **Wastewater** – Using the financial records provided by the Utility, audit staff documented plant balances totaling \$22,878 as of December 31, 2013. The Utility also provided documentation totaling \$5,690 to support the cost of transporting a surge tank to the Utility's wastewater plant site in 2010. The tank, which was donated to the Utility, was part of an Implementation Step ordered by FDEP for the issuance of an operating permit. The permit was issued on October 8, 2008. The surge tank had been reclassified as Construction Work in Process during the last audit in 2012. Since the tank has still not been put in service as of the issuance of this audit, it is being reclassified to Account 103 - Property held for Future Uses.

No documentation was provided in support of the cost of the distribution or collection systems. According to Order No. 25788, all on-site and off-site lines were donated to the Utility by the developer.

Tables 2-1 and 2-2 reflect audit staff's year-end balances for water and wastewater, respectively, as of December 31, 2013.

Finding 2 (cont'd)

**Table 2-1
UPIS - Water**

NARUC		Utility Bal.	Audit	Audit Bal.
Acct. No.	Account Description	12/31/2013	Adjs.	12/31/2013
301	Organization	\$17,630	(\$17,630)	\$0
304	Structures and Improv.	\$327,148	(\$327,148)	\$0
305	Collecting and Imp. Res.	\$63,300	(\$42,140)	\$21,160
307	Wells & Springs	\$49,573	(\$5,603)	\$43,970
309	Supply Mains	\$11,000	(\$11,000)	\$0
310	Power Generation Equipm.	\$20,493	(\$20,493)	\$0
311	Pumping Equipment	\$26,395	(\$9,506)	\$16,889
320	Water Treatment Equip.	\$5,187	\$20,310	\$25,497
331	Trans. and Distrib. Lines	\$941,601	(\$941,601)	\$0
334	Meters and Meter Installat	\$18,115	\$18,562	\$36,677
340	Office Furn. and Equip.	\$14,639	(\$14,114)	\$525
340.1	Computer	\$0	\$367	\$367
341	Transportation Equip.	\$8,618	(\$8,618)	\$0
345	Power Operated Equip.	\$35,000	(\$33,350)	\$1,650
347	Misc. Equipment	\$6,637	(\$6,637)	\$0
		\$1,545,336	(\$1,398,601)	\$146,735

Finding 2 (cont'd)

**Table 2-2
UPIS - Wastewater**

NARUC Acct. No	Account Description	Utility Bal. 12/31/2013	Audit Adjs.	Audit Bal. 12/31/2013
351	Organization	\$832	(\$832)	\$0
354	Structures and Improv.	\$332,027	(\$331,173)	\$854
361	Collecting Sewers - Gravity	\$274,095	(\$274,095)	\$0
364	Flow Measuring Devices	\$5,269	(\$5,269)	\$0
371	Pumping Equipment	\$0	\$7,684	\$7,684
380	Treatment and Disp. Equip.	\$8,550	\$3,248	\$11,798
382	Outfall Sewer Lines	\$2,649	(\$2,649)	\$0
389	Other Plant and Misc. Equip.	\$8,150	(\$8,150)	\$0
390	Office Furniture and Equip.	\$7,180	(\$6,655)	\$525
390.1	Office Furn. and Equip. - Comp.	\$0	\$367	\$367
391	Transportation Equipment	\$6,241	(\$6,241)	\$0
395	Power Operated Equipment	\$0	\$1,650	\$1,650
397	Miscellaneous Equipment	\$462	(\$462)	\$0
398	Other Tangible Plant	\$0	\$0	\$0
		<u>\$645,455</u>	<u>(\$622,577)</u>	<u>\$22,878</u>

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

Effect on Staff Prepared Exhibits: Adjust Rate Base Exhibits for water and wastewater UPIS by (\$1,398,601) and (\$622,577), respectively. Include Property held for future use.

Finding 3: Pro Forma Plant

Audit Analysis: A submersible pump broke off and fell into the third well, which was constructed in 2012, but never put in service. At the time of this report, a company was attempting to retrieve the pump and was optimistic they could do so at a cost of \$2,000. The Utility does not know if the pump can be repaired and if the well can be made operable. If it can, the Utility estimates the price to be \$20,000. If it can't, the Utility estimates a new pump and well to cost between \$77,000 and \$142,000, and the well will be restricted by the buried pump. The pump was installed on October 12, 2012, and broke and fell into the well on March 25, 2014, shortly after the warranty expired. A formal bid quote by a potential vendor on the estimated costs of a new well was requested by audit staff. A quote has not been received.

Effect on the General Ledger: None.

Effect on Staff Prepared Exhibits: We defer this issue to the Analyst to determine the disposition of this issue.

Finding 4: Land and Land Rights

Audit Analysis: On November 10, 1983, Prairie Oaks Company purchased undeveloped property containing 480 acres from Hart Arrow Corporation. Subsequent to the property being platted, a series of affiliated transactions, and a foreclosure settlement, the portions of the land on which the water and wastewater treatment plants are located were transferred to Country Club of Sebring in 1991 and to Country Club Utilities, Inc. in 2003.

Journal entries were posted to the Utility's general ledger in 2005 recording Land and Land Rights of \$19,418 and \$23,548 for water and wastewater, respectively, to allocate the purchase price according to Commission requirements. The Commission has neither set rate base nor approved an allocation of a purchase price for the Utility.

audit staff calculated the original cost of the 480 acres of land to be \$1,499,900 based on the \$6,749.55 of documentary stamps paid to record the deed in 1983 and \$0.45 in stamps per \$100 of sales price. Therefore, the price per acre at the time the land was first dedicated to public use was \$3,125.

According to the Highlands County's property records, the Utility owns 3.07 acres of property for the water system and 4.77 acres for the wastewater system. The water plant site is enclosed in a chain link fenced area that measures approximately 120 feet X 120 feet or 14,400 square feet, which represents .331 acres ($14,400/43,560 = .331$). The remaining 2.739 acres is vacant land surrounding the water treatment plant and does not appear to be used for utility purposes. The wastewater treatment plant site, percolation ponds, and access road, which are enclosed in a chain link fenced area, cover the entire 4.77 acre parcel.

Audit staff's calculation of land based on the cost of the land when first dedicated to public use in 1983 is shown in Table 4-1.

**Table 4-1
Land Value**

<u>NARUC Acct. No.</u>	<u>Description</u>	<u>Acreage</u>	<u>Amount Per Acre</u>	<u>Audit Calculated Land Cost</u>	<u>Balance Per Utility</u>	<u>Difference</u>
303	Land and Land Rights	0.331	\$3,125	\$1,034	\$19,418	(\$18,384)
353	Land and Land Rights	4.770	\$3,125	\$14,906	\$23,548	(\$8,642)

Finding 4 (cont'd)

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

Effect on Staff Prepared Exhibits: Decrease Land by \$18,384 and \$8,642 for water and wastewater, respectively.

Finding 5: CIAC and Accumulated Amortization of CIAC

Audit Analysis: CIAC recorded in the Utility's general ledger and annual report as of December 31, 2013, total \$1,012,451 and \$445,563 for water and wastewater, respectively. Using the Audit balances of CIAC as of June 30, 2012, determined in the prior audit and additions to CIAC since then, audit staff determined that CIAC is \$249,775 and \$185,900 for water and wastewater, respectively as of December 31, 2013.

Audit staff calculated the December 31, 2013 balances of Accumulated amortization of CIAC to be \$41,733 and \$49,562 for water and wastewater respectively.

Audit staff calculated the yearly amortization of CIAC to be \$6,244 and \$4,648 for water and wastewater, respectively.

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

Effect on Staff Prepared Exhibits: Reduce CIAC as of December 31, 2013 by \$762,676 and \$259,663 for water and wastewater respectively. Reduce Accumulated Amortization of CIAC as of December 31, 2013 by \$574,969 and \$204,046 for water and wastewater respectively. Reduce amortization expense of CIAC for the test year by \$19,067 and \$6,491 for water and wastewater respectively.

Finding 6: Accumulated Depreciation

Audit Analysis: Accumulated Depreciation balances per the Utility's general ledger as of December 31, 2013, are \$957,622 and \$474,977 for water and wastewater, respectively. The year-end Accumulated Depreciation balances calculated by audit staff as of December 31, 2013, are \$61,418 and \$12,184 for water and wastewater, respectively. Utility has test year depreciation of \$38,870 and \$15,956 for water and wastewater, respectively. Audit staff calculated Depreciation for the test year to be \$6,488 and \$1,536 for water and wastewater respectively.

Tables 6-1 and 6-2 summarize year-end Accumulated Depreciation balances for water and wastewater.

**Table 6-1
Accumulated Depreciation – Water**

NARUC <u>Acct. No.</u>	<u>Account Description</u>	<u>Utility Bal.</u> <u>12/31/2013</u>	<u>Adjs.</u>	<u>Audit Bal.</u> <u>12/31/2013</u>
301	Organization	\$15,050	(\$15,050)	\$0
303	Land and Land Rights	\$0	\$0	\$0
304	Structures and Improvements	\$198,949	(\$195,081)	\$3,868
305	Collecting and Impounding Reservoirs	\$42,992	(\$42,992)	\$0
307	Wells and Springs	\$7,301	(\$2,875)	\$4,426
309	Supply Mains	\$9,391	(\$9,391)	\$0
310	Power Generation Equipment	\$20,493	(\$20,493)	
311	Pumping Equipment	\$22,597	(\$14,726)	\$7,871
320	Water Treatment Equipment	\$4,428	\$14,555	\$18,983
331	Transmission and Distributions Lines	\$570,025	(\$570,025)	\$0
334	Meters and Meter Installations	\$9,121	\$15,092	\$24,213
340	Office Furniture and Equipment	\$14,639	(\$14,446)	\$193
340-1	Computer	\$0	\$214	\$214
341	Transportation Equipment	\$7,090	(\$7,090)	\$0
345	Power Operated Equipment	\$29,879	(\$28,229)	\$1,650
347	Miscellaneous Equipment	\$5,667	(\$5,667)	\$0
		<u>\$957,622</u>	<u>(\$896,204)</u>	<u>\$61,418</u>

Table 6-2
Accumulated Depreciation - Wastewater

NARUC		Utility Bal.		Audit Bal.
Acct. No.	Account Description	12/31/2013	Adjs.	12/31/2013
351	Organization	\$628	(\$628)	\$0
353	Land and Land Rights	\$0	\$0	\$0
354	Structures and Improvements	\$246,155	(\$246,048)	\$107
361	Collecting Sewers - Gravity	\$204,125	(\$204,125)	\$0
364	Flow Measuring Devices	\$4,005	(\$4,005)	\$0
380	Treatment and Disposal Equipment	\$6,498	\$5,039	\$11,537
371	Pumping Equipment	\$0	\$133	\$133
382	Outfall Sewer Lines	\$2,013	(\$2,013)	\$0
389	Other Plant and Miscellaneous Equipment	\$0	\$0	\$0
390	Office Furniture and Equipment	\$1,627	(\$1,434)	\$193
390	Office Furniture and Equipment - Computer	\$0	\$214	\$214
391	Transportation Equipment	\$7,000	(\$7,000)	\$0
392	Stores Equipment	\$2,574	(\$2,574)	\$0
395	Power Operated Equipment	\$0	\$0	\$0
397	Miscellaneous Equipment	\$352	(\$352)	\$0
348	Other Tangible Plant	\$0	\$0	\$0
		<u>\$474,977</u>	<u>(\$462,793)</u>	<u>\$12,184</u>

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

Effect on Staff Prepared Exhibits: Reduce the Accumulated Depreciation as of December 31, 2013 by \$896,204 and \$462,793, for water and wastewater respectively. Reduce the Depreciation for the test year by \$31,582 and \$14,420, for water and wastewater respectively.

Finding 7: Acquisition Adjustment

Audit Analysis: The Utility reports an Acquisition Adjustment in its General Ledger of \$12,205, related accumulated amortization of (\$7,323), and related amortization of \$1,221. No Commission Order authorizes this acquisition adjustment; therefore, audit staff removed these from the rate base exhibit and the net operating income exhibit.

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

Effect on Staff Prepared Exhibits: Audit staff did not include the Utility amounts related to Acquisition adjustments in any of the exhibits of this report, thus no adjustments made. Finding is included for analyst use only.

Finding 8: Capital Structure

Audit Analysis: The Utility had collected customer deposits of \$3,250 as of December 31, 2013. The Utility does not have an approved tariff for initial customer deposits. The deposits are recorded on the Utility's books and records in an asset account titled "Deposits" and a payable account titled "Customer Deposits –Refundable". The Utility does not pay or credit interest for deposits held or refund deposits after 23 months of satisfactory payments as required by Rule 25-30.311, F.A.C. Therefore, the utility should refund these deposits back to the customer.

The Utility has 12 outstanding notes payable from individuals and commercial lender as of December 31, 2013, with interest rates varying from 4% to 9.25%. The Utility was only able to provide a signed document for 4 of the 11 notes. Table 9-1 lists the notes payable.

**Table 9-1
Notes Payable**

Issue			Interest	Balance	Balance
<u>Date</u>	<u>Amount</u>	<u>Maker</u>	<u>Rate</u>	<u>12/31/12</u>	<u>12/31/13</u>
8/1/07	\$500,000	Highlands Ind. Bank	8.25%	\$378,802	\$353,947
9/1/09	\$45,409	Highlands Ind. Bank	9.25%	\$39,909	\$28,455
2/7/10	\$69,912	Schmalzried	8.00%	\$51,730	\$28,221
5/15/12	\$25,000	Schmalzried	6.00%	\$25,000	\$25,000
2/1/10	\$25,000	Brown	7.00%	\$11,910	\$6,636
2/1/10	\$25,000	Rossodivita	7.00%	\$12,333	\$6,393
2/1/10	\$25,000	Dukes	7.00%	\$11,910	\$6,636
3/1/10	\$25,000	Bagshaw	7.00%	\$11,910	\$6,580
12/1/10	\$5,000	Miller	8.00%	\$5,000	\$2,600
1/1/13	\$10,000	Freer	8.00%	\$449	\$5,614
5/1/11	\$30,000	Cross	7.00%	\$14,111	\$3,652
5/1/12	\$25,000	Garrison	4.00%	\$22,333	\$17,613
	<u>\$585,397</u>			<u>\$585,397</u>	<u>\$491,347</u>

Effect on the General Ledger: None.

Effect on Staff Prepared Exhibits: Reduce customer deposits by \$3,250.

Finding 9: Billing System

Audit Analysis: During the course of the audit, it became apparent that the aggregation of gallonage for the billing system as delineated in the billing detail was not reflecting the actual gallonage billed to customers. Being able to adjust discrepancies in gallonage due to mis-reads is not always possible. Re-read adjustments are often estimates based on a customer's billing history.

Additionally, the current billing system is not programmed to generate accurate monthly gallonage information on a customer basis. This makes it more difficult to be able to reconcile gallonage by customer on an adjusted basis.

The overall audit process of developing a billing analysis and reconciling revenues to the Utility's general ledger required an inordinate amount of time by audit staff. Rule 25-30.450, F.A.C. requires that data be organized in a systematic and rational manner so as to allow the Commission Staff to verify all data and information in an expedient manner. The current billing system utilized by the Utility makes this difficult.

The Utility's owner acknowledges that the billing system is inadequate and problematic in producing accurate reports and billings to customers. He estimates that a new system would cost approximately \$10,000.

Effect on the General Ledger: The impact cannot be quantified.

Effect on Staff Prepared Exhibits: Deferred to the Analyst.

Finding 10: Miscellaneous Revenues

Audit Analysis: A review of the Utility's revenue accounts indicate that charges are being passed on to customers that are not authorized by a tariff. Additionally, there were CIAC Tap-On Fees of \$2,625 booked as Revenue. Audit staff applied 50% to water and wastewater, respectively. Chart 10-1 summarizes those charges.

Table 10-1

Account Description	Utility Bal. 12/31/2013	Adjs.	Audit Bal. 12/31/2013
Late Charges	\$497	(\$497)	\$0
Transfer Fees	\$465	(\$145)	\$320
Tap-On Fees	\$2,626	(\$2,626)	\$0
	<u>\$3,588</u>	<u>(\$3,268)</u>	<u>\$320</u>

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

Effect on Staff Prepared Exhibits: Reduce water revenues by \$1,634 and wastewater revenues by \$1,634. The adjustments to CIAC are found in Finding 5.

Finding 11: Operation and Maintenance Expense

Audit Analysis: O&M Expenses for the test year are \$76,634 and \$46,147 for water and wastewater, respectively. There were numerous instances where there was insufficient documentation for items posted to the general ledger and misclassifications of expense. Proposed adjustments to O&M Expenses reduce water and wastewater expense by (\$18,930) and (\$9,050), respectively. Audit adjustments are summarized in Tables 11-1 and 11-2.

**Table 11-1
O&M Expense – Water**

<u>NARUC Acct. No.</u>	<u>Account Description</u>	<u>Utility Bal. 12/31/13</u>	<u>Audit Adjs.</u>	<u>Audit Bal. 12/31/13</u>
615	Purchased Power	\$24,335	(\$1,597)	\$22,738
618	Chemicals	\$21,091	\$3,551	\$24,642
620	Materials and Supplies	\$38	\$2,392	\$2,430
631	Contractual Svcs. - Prof.	\$18,451	(\$14,639)	\$3,812
636	Contractual Svcs. - Other	\$10,043	\$3,245	\$13,288
640	Rent	\$3,600	(\$304)	\$3,296
650	Transportation Expense	\$9,796	(\$8,120)	\$1,676
655	Insurance Expense	\$8,115	(\$5,616)	\$2,499
665	Reg. Com. Expense	\$45	(\$45)	\$0
675	Misc. Expense	\$50	\$2,203	\$2,253
		<u>\$95,564</u>	<u>(\$18,930)</u>	<u>\$76,634</u>

- A/C 615 – Purchased Power – Reduce account by (\$1,597) which include an unsupported expense for \$182.36, an out of period invoice of (\$3,052.60) dated 12/31/12, and an invoice for \$1,273.74 not posted to the general ledger.
- A/C 618 – Chemicals – Increase account by \$3,551 to reflect posting of an incorrect invoice to the general ledger.
- A/C 620 – Materials and Supplies – Increase account for water expense allocations for office supplies – 80% = \$1,070.05, stamps – 50% = \$970.66, computer supplies – 50% = \$389.50. Net adjustments increase the account by a total of \$2,391.96.
- A/C 631 – Contractual Services – Professional – Reduce account by (\$14,639) to include reclassification of (\$11,755.88) to A/C 636 – Contractual Services – Other, removal of unsubstantiated expenses of (\$2,168.12), and the reclassification of (\$715) to A/C 620 – Material and Supplies.

Finding 11 (cont'd)

- A/C 636 – Contractual Services – Other – Increase account by \$3,245 which includes the reclassification from A/C 631 - Contractual Services – Professional of \$11,755.88, the removal of unsupported storage expense of (\$10,043.18), the reclassification/reallocation of (\$16,933.81) to wastewater expense, and the inclusion of unrecorded services of \$18,466.11.
- A/C 640 – Rents – Reduce rent by (\$304) to reflect the going market rate per square feet for office rental space in Highlands County.
- A/C 650 - Transportation Expense – Utility charges gas receipts to this account and Account 750. Utility uses vehicle for personal use as well as utility business. Audit staff determined that 5,986 miles are driven for utility business. Using the current Internal Revenue Service mileage allowance of \$.56/mile, this equates to \$3,352 per year. Dividing this amount equally between water and wastewater equates to \$1,676 for water and wastewater respectively. Therefore, Account 650 should be reduced \$8,120 to reflect a remaining balance in the account of \$1,676.
- A/C 655 – Insurance Expense – Reduce account by (\$5,616) to include the 50% allocation from wastewater for truck insurance of \$624, 50% allocation of liability insurance from wastewater of \$1,875 and to remove unsubstantiated insurance expense of (\$8,115)
- A/C 665 - Regulatory Commission Expense – Reduce account by (\$45) for charges incurred for a late Public Service Commission Annual Report.
- A/C 675 – Miscellaneous Expense – Increase account by \$1,953.47 to record costs supported by invoices but not booked; Amortize \$3,000 water for permit cost. The permit has a ten year life which totals \$300 annually. The permit was acquired in 2006. A deferred amount remains of \$600 and reduce account by (\$50) for medical check up for the Utility's owner.

**Table 11-2
O&M Expense – Wastewater**

<u>NARUC</u> <u>Acct. No.</u>	<u>Account</u> <u>Description</u>	<u>Utility Bal.</u> <u>12/31/13</u>	<u>Audit</u> <u>Adjs.</u>	<u>Audit Bal.</u> <u>12/31/13</u>
711	Sludge Removal	\$4,400	\$0	\$4,400
715	Purchased Power	\$7,841	\$1,769	\$9,610
718	Chemicals	\$8,068	(\$8,068)	\$0
720	Materials and Supplies	\$253	\$1,381	\$1,634
731	Contractual Svcs. - Prof.	\$19,163	(\$16,151)	\$3,012
736	Contractual Svcs. - Other	\$9,561	\$9,424	\$18,985
740	Rent	\$2,536	\$760	\$3,296
750	Transportation Expense	\$4,211	(\$2,535)	\$1,676
755	Insurance Expense	\$310	\$2,189	\$2,499
775	Misc. Expense	(\$1,146)	\$2,181	\$1,035
		<u>\$55,197</u>	<u>(\$9,050)</u>	<u>\$46,147</u>

- A/C 715 - Purchased Power – Reduce account by (\$1,769) for unsubstantiated expense
- A/C 718 – Chemicals – Reduce account by (\$8,068) for unsubstantiated expense.
- A/C 720 – Materials and Supplies - Increase account for wastewater expense allocations for office supplies – 20% = \$272.92, stamps – 50% = \$970.66, computer supplies – 50% = \$389.50. Reduce account by (\$252.58) for unsubstantiated expense. Adjustments total \$1,380.50.
- A/C 731 – Contractual Services – Professional – Reduce account by a net of (\$16,151) to include (\$15,272.13) for unsubstantiated expense and (\$878.87) for disallowed DEP fines.
- A/C 736 – Contractual Services – Other – Increase account by \$9,424 to include \$16,933.81 in reclassification/reallocation of amounts from water expense, and reduce account by (\$7,509.81) for amounts erroneously classified in the general ledger as maintenance, equipment repairs, and cleaning and janitorial.
- A/C 740 – Rents – Increase account by \$760 to reflect the current value of rent allocation to wastewater operations.
- A/C 750 – Transportation Expense – Utility charges gas receipts to this account and Account 650. Utility uses vehicle for personal use as well as utility business. Audit staff determined that 5,986 miles are driven for utility business. Using the current Internal Revenue Service mileage allowance of \$.56/mile, this equates to \$3,352 per year. Dividing this amount equally between water and wastewater equates to \$1,676 for water and wastewater respectively. Therefore, Account 750 should be reduced \$2,535 to reflect a remaining balance in the account of \$1,676.

- A/C 755 – Insurance Expense – Increase account by \$2,189 to include an allocation of 50% = \$624 for truck insurance, 50% = \$1,875 for liability insurance and the removal of unsupported insurance expense of \$310.
- A/C 775 – Miscellaneous Expense – Increase account by \$2,181 to eliminate the negative account balance, adjust for invoices not posted the general ledger, and amortization of a \$3,000 permit cost over 5 years which totals \$600 annually. The permit was acquired in 2013. A deferred amount remains of \$2,400.

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

Effect on Staff Prepared Exhibits: Reduce O&M Expense on the NOI Exhibit by \$18,930 and \$9,050 for water and wastewater, respectively.

Finding 12: Pro Forma O&M Expense

Audit Analysis: During our analysis of O&M Expense, Audit Staff noted that the Utility receives a benefit from Mr. Harris' utility management expertise and costs associated with customer billing and collection. Expenses were not recorded for salaries and other employee benefits such as retirement and health insurance.

Mr. Harris currently handles all administrative functions for both the water and wastewater systems, except for billing. He estimates that he spends 25 hours a week at a market price of \$30 per hour managing utility operations.

Mr. Harris' wife handles all billing and billing related issues for both the water and wastewater systems. She is responsible for the billing function to include preparing and mailing customers' bills, collection and processing of customers' payments. He estimates that his wife spends 15 hours a week at a market price of \$15 performing the customer billing and collection functions.

Table 12-1 summarizes salary costs as provided by Mr. Harris.

**Table 12-1
Salaries and Wages**

Name	Expense Category	Total	Allocation to Plant	
			50% Water	50% WW
Mr. Greg Harris	Management Fee	\$39,000	\$19,500	\$19,500
Mrs. Janet Harris	Billing and Collection	\$2,700	\$1,350	\$1,350
		<u>\$41,700</u>	<u>\$20,850</u>	<u>\$20,850</u>

Effect on the General Ledger: None.

Effect on Staff Prepared Exhibits: Included for informational purposes.

Finding 13: Taxes Other than Income

Audit Analysis: The Utility, incurred expenses for Ad Valorem Taxes and Non-Ad Valorem Assessments from Highlands County Tax Collector on its water and wastewater acreage.

Taxes of \$6,073 were paid on the water plant on April 24, 2014. Because the utility did not pay in November 2013, an additional \$243 was paid. Audit staff removed this. Consistent with audit’s reduction in utility land in Finding 4, audit staff reduced the amount further by \$5,188. This leaves an amount of \$642 (\$6,073-\$243-\$5,188) for Utility purposes.

Taxes of \$2,999 were paid on the wastewater plant on March 31, 2014. Because the utility did not pay in November 2013, an additional \$120 was paid. Audit staff removed this.

The Utility’s Revenues for the test period are \$143,015 and \$98,167 for water and wastewater, respectively. The general ledger revenue balances were accepted by audit staff for calculation of RAF Revenues as the variance between the general ledger and audit staff’s recalculated revenue were minimal.

RAFs associated with these Revenues are \$6,436 and \$4, 418, respectively. See Table 13-1 for details.

**Table 13-1
Taxes Other Than Income**

	<u>Utility Bal.</u> <u>12/31/2013</u>	<u>Adjs.</u>	<u>Audit Bal.</u> <u>12/31/2013</u>
<u>Water</u>			
Property	\$6,073	(\$5,431)	\$642
RAFs	\$6,436	\$0	\$6,436
Total	<u>\$12,509</u>	<u>(\$5,431)</u>	<u>\$7,078</u>
<u>Wastewater</u>			
Property	\$2,999	(\$120)	\$2,879
RAFs	\$4,418	\$0	\$4,418
Total	<u>\$7,417</u>	<u>(\$120)</u>	<u>\$7,297</u>

Effect on the General Ledger: None.

Effect on Staff Prepared Exhibits: Reduce TOTI by \$5,431 and \$120 for water and wastewater respectively.

Exhibits

Exhibit 1: Rate Base

Country Club Utilities Rate Base As of December 31, 2013

Water	<u>Description</u>	<u>Utility Bal.</u> <u>@12/31/13</u>	<u>Adjs.</u>	<u>Audit Bal.</u> <u>@12/31/13</u>
	Utility Plant in Service	\$1,545,336	\$1,398,601	\$146,735
	Land and Land Rights	\$19,418	(\$18,384)	\$1,034
	Contributions in Aid of Construction (CIAC)	(\$1,012,451)	\$762,676	(\$249,775)
	Accumulated Amortization of CIAC	\$616,702	(\$574,969)	\$41,733
	Accumulated Depreciation	(\$957,622)	\$896,204	(\$61,418)
	Working Capital (1)	\$0	\$9,579	\$9,579
	Net Rate Base - Water	<u>\$211,383</u>	<u>\$2,473,707</u>	<u>(\$112,112)</u>

Wastewater	<u>Description</u>	<u>Utility Bal.</u> <u>@12/31/13</u>	<u>Adjs.</u>	<u>Audit Bal.</u> <u>@12/31/13</u>
	Utility Plant in Service	\$645,455	(\$622,577)	\$22,878
	Land and Land Rights	\$23,547	(\$8,642)	\$14,906
	Plant Held for Future Use	\$0	\$5,690	\$5,690
	Contributions in Aid of Construction (CIAC)	(\$445,563)	\$259,663	(\$185,900)
	Accumulated Amortization of CIAC	\$253,608	(\$204,046)	\$49,562
	Accumulated Depreciation	(\$474,977)	\$462,793	(\$12,184)
	Working Capital (1)	\$0	\$5,768	\$5,768
	Net Rate Base - Wastewater	<u>\$2,070</u>	<u>(\$101,351)</u>	<u>(\$99,280)</u>

(1) Working Capital = 1/8 th of O&M Expenses.

All amounts are rounded to the nearest dollar.

Exhibit2: Capital Structure

Country Club Utilities, Inc. Capital Structure As of December 31, 2013

<u>Description</u>	<u>Utility Bal. @ 12/31/13</u>	<u>Audit Adjs.</u>	<u>Audit Balance @ 12/31/13</u>	<u>RATIO</u>	<u>COST RATE</u>	<u>WEIGHTED COST OF CAPITAL</u>
LTD - Notes Payable	\$491,347	\$0	\$491,347	100%	8.25%	8.25%
Customer Deposits	\$3,250	(\$3,250)	\$0	0%	2.00%	0.00%
Total	<u>\$494,597</u>	<u>(\$3,250)</u>	<u>\$491,347</u>	<u>100%</u>		8.25%

Exhibit 3: Net Operating Income

Country Club Utilities, Inc.
Net Operating Income
As of December 31, 2013

Water

Description	Utility Bal. 12/31/2013	Audit Adjs.	Audit Bal. 12/31/2013
Revenues	\$143,015	(\$1,634)	\$141,381
Operation & Maintenance	\$95,564	(\$18,930)	\$76,634
Depreciation Expense	\$38,070	(\$31,582)	\$6,488
CIAC Amortization Expense	(\$25,311)	\$19,067	(\$6,244)
Taxes Other Than Income Expense	\$12,509	(\$5,431)	\$7,078
Operating Expense	<u>\$120,832</u>	<u>(\$36,876)</u>	<u>\$83,956</u>
Net Operating Income - Water	<u>\$22,183</u>	<u>\$35,242</u>	<u>\$57,425</u>

Wastewater

Description	Utility Bal. 12/31/2013	Audit Adjs.	Audit Bal. 12/31/2013
Revenues	\$98,754	(\$1,634)	\$97,120
Operation & Maintenance	\$55,197	(\$9,050)	\$46,147
Depreciation Expense	\$15,956	(\$14,420)	\$1,536
CIAC Amortization Expense	(\$11,139)	\$6,491	(\$4,648)
Taxes Other Than Income Expense	\$7,417	(\$120)	\$7,297
Operating Expense	<u>\$67,431</u>	<u>(\$17,099)</u>	<u>\$50,332</u>
Net Operating Income - Wastewater	<u>\$31,323</u>	<u>\$15,465</u>	<u>\$46,788</u>

(All amounts are rounded to the nearest dollar)