

State of Florida



Public Service Commission

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DATE: August 12, 2011
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CJP*
RE: Docket No.: 110141-WS
Company Name: Genelefe Resort Utility, Inc.
Company Code: WS770
Audit Purpose: Staff Assisted Rate Case
Audit Control No: 11-159-2-1

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There were no confidential work papers associated with this audit.

CJP/kby

Attachments: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

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

Auditor's Report

Grenelefe Resort Utility, Inc.
Staff Assisted Rate Case

12-Month Period Ending March 31, 2011

Docket No. 110141-WS
Audit Control No. 11-159-2-1
August 9, 2011

Handwritten signature of Jeffery A. Small in black ink.

Jeffery A. Small
Audit Manager

Handwritten signature of Ronald Mavrides in black ink.

Ronald Mavrides
Audit Staff

Handwritten signature of Linda Hill-Slaughter in black ink.

Linda Hill-Slaughter
Reviewer

DOCUMENT NUMBER-DATE

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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 Economic Regulation in its audit service request dated June 8, 2011. We have applied these procedures to the attached schedules prepared by the audit staff in support of Grenelefe Resort Utility, Inc.'s request for a Staff Assisted Rate Case in Docket No. 110141-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

Utility Information

Grenelefe Resort Utility, Inc. is a Class B utility that provides utility services to approximately 1,365 water and wastewater customers in Polk County, Florida.¹ The Utility is managed and owned by Central Florida Investments, Inc. (CFI), the Utility's sole shareholder. Additionally, CFI owns and manages River Ranch Water Management, LLC which is also under the Florida Public Service Commission's jurisdiction.

Utility Books and Records

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

Procedure: We reviewed the Utility's accounting system and determined that it is in substantial compliance with the NARUC USOA.

Rate Base

Utility Plant in Service

Objectives: Our objectives were to: 1) Determine that property exists and is owned by the Utility and that Utility Plant in Service (UPIS) additions are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC USOA, 2) Verify that the proper retirements of UPIS were made when a replacement item was put in service, and 3) Verify that the adjustments to UPIS in the Utility's last transfer proceeding² were recorded in its general ledger.

Procedures: We determined the water and wastewater UPIS balances as of July 1, 2002 that were established in Docket No. 030123-WS. We reviewed and sampled additions to water and wastewater plant for the period July 1, 2002, through March 31, 2011, to verify the water and wastewater UPIS balances for this proceeding. We ensured that retirements were made when a capital item was removed or replaced. We toured the water and wastewater utility plant sites to observe whether plant additions were completed and in service, and to ascertain if a retirement was needed. Our recommended adjustments to water and wastewater UPIS balances are discussed in Findings 1-3.

¹ Per the Staff Assisted Rate Case Application for this proceeding which was filed on May 5, 2011.

² Order No. PSC-05-0142-PAA-WS, issued February 7, 2005, Docket No.030123-WS, In Re: Application for transfer of majority organizational control of Sports Shinko Utility, d/b/a Grenelefe Utilities in Polk County and for name change on Certificate Nos. 589-W and 507-S to Grenelefe Resort Utility, Inc.

Land & Land Rights

Objectives: Our objectives were to: 1) Determine that utility land is recorded at original cost and is owned or secured under a long-term lease, and 2) Verify that the adjustments to land in the Utility's last transfer proceeding were recorded in its general ledger.

Procedures: We determined the water and wastewater land balances as of July 1, 2002 that were established in Docket No. 030123-WS. We reconciled the Utility's water and wastewater land balances for this proceeding to the balances established in Order No. PSC-05-0142-PAA-WS. There were no changes to utility land since the transfer proceeding.

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 transfer proceeding were recorded in its general ledger.

Procedures: We determined the water and wastewater CIAC balances as of July 1, 2002 that were established in Docket No. 030123-WS. We reviewed and sampled additions to water and wastewater CIAC for the period July 1, 2002, through March 31, 2011, to verify the Utility's CIAC balances for this rate case proceeding.

Accumulated Depreciation

Objectives: Our objectives were to: 1) Verify that the adjustments to Accumulated Depreciation in the Utility's last transfer proceeding were recorded in its 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 determined the water and wastewater Accumulated Depreciation balances as of July 1, 2002, that were established in Docket No. 030123-WS. We reviewed and sampled additions to accumulated depreciation for the period July 1, 2002, through March 31, 2011, to verify the Utility's Accumulated Depreciation balances for this proceeding. We ensured that retirements to Accumulated Depreciation were made when a capital item was removed or replaced. Our recommended adjustments to water and wastewater Accumulated Depreciation balances are discussed in Findings 4-6.

Accumulated Amortization of CIAC

Objectives: Our objectives were to: 1) Determine that 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 transfer proceeding were recorded in its general ledger.

Procedures: We determined the water and wastewater Accumulated Amortization of CIAC balances as of July 1, 2002, that were established in Docket No. 030123-WS. We reviewed and sampled additions to Accumulated Amortization of CIAC for the period July 1, 2002, through

March 31, 2011, to verify the Utility's Accumulated Amortization of CIAC balances for this proceeding.

Working Capital

Objective: Our objective was to determine the Utility's working capital balance per Commission rule.

Procedures: We calculated the Utility's working capital adjustment as of March 31, 2011, using one-eighth of operation and maintenance expense as required by Commission Rule 30.433(2), Florida Administrative Code. Our recommended water and wastewater working capital adjustments are discussed in Finding 8.

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 verified the Utility's revenues for the 12-month period ending March 31, 2011, by tracing them to the Utility's general ledger and billing register system.

Operation and Maintenance Expense

Objectives: Our objectives were to determine that Operation and Maintenance (O&M) expenses are properly recorded in compliance with NARUC USOA and Commission rules and are representative of ongoing utility operations.

Procedures: We verified water and wastewater O&M expenses for the 12-month period ending March 31, 2011, by tracing a sample of invoices to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and recurring nature. We determined the proper allocation of expenses between the Utility's related party operations and its water and wastewater operations. Our recommended adjustments to water and wastewater O&M expenses are discussed in Finding 8.

Depreciation and CIAC Amortization Expense

Objectives: Our objective was to determine that depreciation and CIAC amortization expenses are properly recorded in compliance with Commission rules and that they accurately represent the depreciation of UPIS assets and the amortization of CIAC from ongoing utility operations.

Procedures: We verified the calculation of water and wastewater depreciation expenses and CIAC amortization expenses for the 12-month period ending March 31, 2011, by recalculating a sample of expenses using the rates established by Commission Rule 30.140, Florida Administrative Code. Our recommended adjustments to water and wastewater depreciation expenses are discussed in Findings 5 and 6.

Taxes Other Than Income

Objectives: Our objectives were to determine that Taxes Other Than Income (TOTI) expenses are properly recorded in compliance with Commission rules and are reasonable and prudent for ongoing utility operations.

Procedures: We verified water and wastewater TOTI expenses for the 12-month period ending March 31, 2011, by tracing the taxes to original source documentation. We reviewed the 2010 regulatory assessment fee returns and no exceptions were noted. Our recommended adjustments to water and wastewater TOTI expenses are discussed in Finding 9.

Capital Structure

Objectives: Our objectives were to determine that the components of the Utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission requirements.

Procedures: We determined that the Utility's capital structure is entirely composed of common equity. Our recommended capital structure balance and its weighted average cost rate are discussed in Finding 7.

Audit Findings

Finding 1: Utility Plant in Service - Water

Audit Analysis: Utility records indicate that there was \$107,983 of gross asset additions to the Utility's water system since its last transfer proceeding. We requested supporting documentation for \$90,956 of these additions to sample and verify the Utility's reported ending balance of \$3,504,720 for its water system assets as of March 31, 2011.

Our review indicates that the Utility's water system asset balance is overstated by \$22,328 based on the following audit adjustments.

1. We have reduced Acct. No. 304-Structures and Improvements by \$855 to remove an invoice for a non-utility asset that was recorded in 2011.
2. We have reduced Acct. No. 311-Pumping Equipment by \$17,484 based on the following adjustments.
 - a. We have increased the account by including invoices totaling \$2,567, net of retirements, which rebuilt a 50hp irrigation pump and replaced a 100hp potable well motor in 2005. We reclassified the invoices from the Utility's wastewater system.
 - b. We have reduced the account by removing an invoice totaling \$2,242 that should have been recorded to another CFI subsidiary, River Ranch Water Management, LLC in 2005.
 - c. We have reduced the account by including a retirement totaling \$5,205 for a 30hp irrigation motor and submersible pump that was replaced in 2006.
 - d. We have reduced the account by including a retirement totaling \$3,006 for a 30hp irrigation motor that was replaced in 2008.
 - e. We have increased the account by \$2,274. This amount represents one-half of a \$4,548 invoice to rebuild a 30hp irrigation motor and submersible pump in 2009. We reclassified the amount from the Utility's wastewater system.
 - f. We have reduced the account by including retirements totaling \$11,872 for an irrigation control valve and a turbine pump in 2010.
3. We have increased Acct. No. 334-Meters & Meter Installations by \$736 based on the following adjustments.
 - a. We have increased the account by including invoices totaling \$3,711 for two (2) master flow meters installed in 2005 that we reclassified from the Utility's wastewater system.
 - b. We have reduced the account by removing an invoice totaling \$2,975 for a wastewater flow meter that we reclassified to the Utility's wastewater system in 2005.
4. We have reduced Acct. No. 335- Hydrants by \$4,725 based on the following adjustments.
 - a. We have reduced the account by removing an invoice totaling \$1,650 for fire hydrant testing that should have been recorded as an operating expense in 2005.
 - b. We have reduced the account by including a retirement of \$3,075 for the replacement of a fire hydrant in 2005.

The calculation and effect of our adjustments on the Utility's accumulated depreciation balance and test year depreciation expense are incorporated in Finding 5.

Effect on the General Ledger: The Utility's water UPIS balance should be reduced by \$22,328, as of March 31, 2011, as indicated below.

<u>Acct. No.</u>	<u>Account Description</u>	<u>UPIS Amount</u>
304	Stuctures and Improvements	(\$855)
311	Pumping Equipment	(17,484)
334	Meters and Meter Installations	736
335	Hydrants	(4,725)
	Total	(\$22,328)

Finding 2: Utility Plant in Service - Wastewater

Audit Analysis: Utility records indicate that there was \$109,109 of gross asset additions to the Utility's wastewater system since its last transfer proceeding. We requested supporting documentation for \$104,909 of these additions to sample and verify the Utility's reported ending balance of \$2,975,704 for its wastewater system assets as of March 31, 2011.

Our review indicates that the Utility's water system asset balance is overstated by \$30,288 based on the following audit adjustments.

1. We have reduced Acct. No. 354-Structures and Improvements by \$855 to remove an invoice for a non-utility asset that was recorded in 2011.
2. We have reduced Acct. No. 364-Flow Measuring Devices by \$736 based on the following adjustments.
 - a. We have reduced the account by removing invoices totaling \$3,711 for two (2) master meters installed in 2005 that we reclassified to the Utility's water system.
 - b. We have increased the account by including an invoice totaling \$2,975 for a wastewater flow meter that we reclassified from the Utility's water system in 2005.
3. We have reduced Acct. No. 370-Receiving Wells by \$5,983 based on the following adjustments.
 - a. We have reduced the account by including a retirement of \$4,783 for the replacement of a 5hp hydromatic pump and controls at a main lift station in 2006.
 - b. We reduced the account by removing an invoice totaling \$1,200 to vacator (clean) the lift stations in 2007. Expenses such as these are recurring and should be recorded as O&M expense in the year incurred.
4. We have reduced Acct. No. 371-Pumping Equipment by \$22,714 based on the following adjustments.
 - a. We have reduced the account by removing invoices totaling \$5,410 which rebuilt a 50hp irrigation pump and replaced a 100hp potable well motor in 2005. We reclassified the invoices to the Utility's water system.
 - b. We have reduced the account by including a retirement of \$2,748 for the replacement of a 15hp lift station sewage pump in 2005.
 - c. We have reduced the account by including a retirement of \$5,630 for the replacement of a 15hp lift station sewage pump in 2006.
 - d. We have reduced the account by \$2,274. This amount represents one-half of a \$4,548 invoice to rebuild a 30hp irrigation motor and submersible pump in 2009. We reclassified the amount to the Utility's water system.
 - e. We have reduced the account by including retirements totaling \$6,652 for a 5hp suction pump and 20hp blower motor that were replaced in 2010.

The calculation and effect of our adjustments on the Utility's accumulated depreciation balance and test year depreciation expense are incorporated in Finding 6.

Effect on the General Ledger: The Utility’s wastewater UPIS balance should be reduced by \$30,288, as of March 31, 2011, as indicated below.

<u>Acct. No.</u>	<u>Account Description</u>	<u>UPIS Amount</u>
354	Structures and Improvements	(\$855)
364	Flow Measuring Devices	(736)
370	Receiving Wells	(5,983)
371	Pumping Equipment	<u>(22,714)</u>
	Total	(\$30,288)

Finding 3: Property Held for Future Use - Water

Audit Analysis: Order No. PSC- 05-0142-PAA-WS established a UPIS balance of \$3,411,084 for the Utility’s water system as of July 1, 2002. This balance was determined using an Original Cost Study³ that was provided to Commission staff by the Utility in Docket No. 030123-WS.⁴

Included within the Original Cost Study were the following water plant assets.

- Two (2) activated carbon filter systems that were installed in 1991 at each of the Utility’s water plant sites to filter organic compounds from the potable water system.
- One (1) non-potable water well site and pumping station that was installed in 1991 and identified as “Cart Shed Pump House Irrigation”.

We have determined from a tour of the Utility’s facilities and our discussions with the water plants operator that the three assets identified above are no longer being used to serve the Utility’s customers.

We recommend that these plant assets, with an original cost of \$466,174 and an accumulated depreciation balance of \$276,039, be transferred to Acct. No. 103-Property Held for Future Use.

Our calculations are displayed in Schedule A that follows.

The effect of our adjustments on the Utility’s accumulated depreciation balance and test year depreciation expense are incorporated in Finding 5.

Effect on the General Ledger: The following amounts should be transferred to Acct. No. 103 Property Held for Future Use.

Acct. No.	Account Description	UPIS	Acc/Dep
304.00	Structures and Improvements	(\$457,020)	\$270,165
307.00	Wells and Springs	(7,183)	4,609
311.00	Pumping Equipment	(1,971)	1,265
	Total Transfer	(\$466,174)	\$276,039

³ Document Number 10991 filed on October 12, 2004, in Docket No. 030123-WS.

⁴ Order No. PSC-05-0142-PAA-WS, page 5. The \$1,000 difference between the Order balance of \$3,410,084 and the \$3,411,084 balance identified above is a summation error within the Order. The sum of the water system sub-account balances displayed on page 17 of the Order equals \$3,411,084. This amount reconciles to the water system balance displayed on page 101 of the Original Cost Study.

Schedule A for Finding 3

Transfer of Activated Carbon Filters to PHFU				Transfer of Cart Shed Pump House Irrigation to PHFU					
Carbon Filters		Srv Life(1)	Srv Life(2)	Wells & Casing	Srv Life(3)	Pump	Srv Life(3)		
WP# 6	\$228,500	33 years	32 years	Wells	\$5,804	30 years	Pump	\$1,971	20 years
WP# 10	<u>228,520</u>	3.03%	3.13%	Casing	<u>1,380</u>	3.33%			5.00%
Total	\$457,020			Total	\$7,183				

1) Period 1991-2001 in original cost study
 2) Period 2002-2010 in annual report
 3) Period 1991-2010 in original cost study and annual report

Year	Months	Transfer of Activated Carbon Filters to PHFU		Transfer of Cart Shed Pump House Irrigation to PHFU			Transfer of Cart Shed Pump House Irrigation to PHFU		
		Annual Accrual	Cumulative Acc/Dep	Months	Annual Accrual	Cumulative Acc/Dep	Months	Annual Accrual	Cumulative Acc/Dep
Dec-91	12	\$13,849	13,849	12	\$239	239	12	\$66	66
Dec-92	12	13,849	27,698	12	239	479	12	66	131
Dec-93	12	13,849	41,547	12	239	718	12	66	197
Dec-94	12	13,849	55,396	12	239	958	12	66	263
Dec-95	12	13,849	69,245	12	239	1,197	12	66	329
Dec-96	12	13,849	83,095	12	239	1,437	12	66	394
Dec-97	12	13,849	96,944	12	239	1,676	12	66	460
Dec-98	12	13,849	110,793	12	239	1,916	12	66	526
Dec-99	12	13,849	124,642	12	239	2,155	12	66	591
Dec-00	12	13,849	138,491	12	239	2,394	12	66	657
Dec-01	12	13,849	152,340	12	239	2,634	12	66	723
Dec-02	12	14,282	166,622	12	239	2,873	12	66	788
Dec-03	12	14,282	180,904	12	239	3,113	12	66	854
Dec-04	12	14,282	195,186	12	239	3,352	12	66	920
Dec-05	12	14,282	209,468	12	239	3,592	12	66	986
Dec-06	12	14,282	223,749	12	239	3,831	12	66	1,051
Dec-07	12	14,282	238,031	12	239	4,071	12	66	1,117
Dec-08	12	14,282	252,313	12	239	4,310	12	66	1,183
Dec-09	12	14,282	266,595	12	239	4,550	12	66	1,248
Mar-10	3	3,570	\$270,165	3	60	\$4,609	3	16	\$1,265

Sum of Accumulated Depreciation adjustment is \$276,039 (\$270,165 + \$4,609 + \$1,265)

Finding 4: Accumulated Depreciation—Adjustment to Order

Audit Analysis: Order No. PSC-05-0142-PAA-WS established water and wastewater accumulated depreciation balances of \$1,578,581 and \$2,218,473, respectively as of July 1, 2002.

The Utility posted water and wastewater accumulated depreciation adjustments that increased water and wastewater accumulated depreciation by \$761,114 and \$919,134, respectively, in 2004 to comply with the Order referenced above.

The Utility's accumulated depreciation adjustments were calculated using the plant asset account balances established in the Order referenced above. The Utility calculated the cumulative effect on the accumulated depreciation account balances of December 31, 2004, and adjusted its annual report balances accordingly.

We tested the Utility's calculations by preparing a schedule that begins with the accumulated depreciation account balances established in the Order as of July 1, 2002. We then accrued one and one-half years of depreciation accruals through December 2004 using the plant asset account balances established in the Order. We applied the depreciation rates established by Rule 25-30.140, F.A.C. in our calculations⁵. The Utility's depreciation accruals and our calculated depreciation accruals were materially the same. Therefore, we used the Utility's actual accruals in our calculations and for comparison purposes.

The results of our test indicate that the Utility's adjustment overstated its water and wastewater accumulated depreciation balances by \$114,277 and \$26, respectively, as of December 31, 2004. Our calculations are displayed in Schedules B and C that follow.

Effect on the General Ledger: See Findings 5 and 6 that follow.

⁵ We determined in a separate audit procedure that the Utility also used the rates as required by Commission rule.

Schedule B for Finding 4

Water Accumulated Depreciation Adjustment to Order

Acc#	Account Description	6/30/2002	Net Depreciation Accruals per		12/31/2004	12/31/2004	
		Beg A/D per Order	Utility Annual Report		End A/D Order Adj.	End A/D Utility Adj.	A/D Adjustment
			2003 (1/2yr)	2004 (full yr)			
301.00	Organization	\$0	\$0	\$0	\$0	\$0	\$0
304.00	Structures & Improvements	(175,997)	(6,147)	(16,262)	(198,406)	(216,652)	18,247
307.00	Wells & Springs	(177,889)	(9,071)	(9,913)	(196,873)	(202,672)	5,800
309.00	Supply Mains	0	0	0	0	0	0
310.00	Power Generation Equip.	(106,760)	0	0	(106,760)	(106,760)	0
311.00	Pumping Equipment	(62,350)	(1,251)	(1,723)	(65,324)	(69,268)	3,945
320.00	Water Treatment Equip.	(6,458)	(1,484)	(359)	(8,301)	(7,357)	(944)
330.00	Dist. Reservoirs & Standpipes	(43,058)	0	(2,001)	(45,059)	(48,061)	3,002
331.00	Transmission & Dist. Mains	(751,235)	0	(44,846)	(796,081)	(863,352)	67,271
333.00	Services	(41,487)	0	(2,454)	(43,941)	(47,621)	3,680
334.00	Meters & Meter Installations	(155,588)	(4,342)	(10,711)	(170,641)	(182,368)	11,728
335.00	Hydrants	(24,675)	(1,220)	(1,415)	(27,310)	(28,211)	901
336.00	Backflow Prevention Devices	0	0	0	0	0	0
339.00	Other Plant & Misc. Equip.	0	0	0	0	0	0
340.00	Office Furniture & Equip.	(12,820)	0	0	(12,820)	(12,820)	0
341.00	Transportation Equip.	(13,920)	0	0	(13,920)	(13,920)	0
343.00	Tools, Shop, & Garage Equip.	(1,970)	0	(179)	(2,149)	(2,418)	269
345.00	Power Operated Equip.	(826)	0	(94)	(920)	(1,061)	141
346.00	Communication Equip.	(1,800)	0	0	(1,800)	(1,800)	0
347.00	Miscellaneous Equip.	(1,748)	0	(159)	(1,907)	(2,145)	238
	Total	(\$1,578,581)	(\$23,513)	(\$90,116)	(\$1,692,210)	(\$1,806,486)	\$114,278

Schedule C for Finding 4

Wastewater Accumulated Depreciation Adjustment to Order

Acc#	Account Description	6/30/2002	Net Depreciation Accruals per		12/31/2004	12/31/2004	
		Beg A/D per Order	Utility Annual Report		End A/D Order Adj.	End A/D Utility Adj.	A/D Adjustment
			2003 (1/2yr)	2004 (full yr)			
351.00	Organization	\$0	\$0	\$0	\$0	\$0	\$0
352.00	Franchises	0	0	0	0	0	0
354.00	Structures & Improvements	(36,990)	(860)	(2,470)	(40,320)	(43,164)	2,844
355.00	Power Generating Equip.	0	0	0	0	0	0
360.00	Collection - Sewers forced	(50,810)	(5,627)	(2,411)	(58,848)	(56,837)	(2,011)
361.00	Collection - Sewers gravity	(263,804)	(121)	(15,151)	(279,076)	(301,681)	22,606
362.00	Special Collecting Structures	0	(133)	0	(133)	0	(133)
363.00	Services to customers	(37,162)	0	(2,196)	(39,358)	(42,654)	3,296
364.00	Flow Measuring Devices	(2,300)	0	0	(2,300)	(2,300)	0
365.00	Flow Measuring Installations	0	0	0	0	0	0
370.00	Lift Stations	(128,869)	0	(7,009)	(135,878)	(146,393)	10,515
371.00	Pumping Equip.	(53,160)	(465)	(3,547)	(57,172)	(62,028)	4,856
374.00	Reuse Dist. Reservoirs	(2,354)	0	(157)	(2,511)	(2,746)	235
370.00	Receiving Wells	0	0	0	0	0	0
380.00	Treatment & Disposal Equip.	(1,588,000)	(42,954)	0	(1,630,954)	(1,588,000)	(42,954)
381.00	Plant Sewers	0	0	0	0	0	0
382.00	Outfall Sewer Lines	(23,446)	(1,685)	(1,562)	(26,693)	(27,350)	657
389.00	Other Plant & Misc. Equip.	0	0	0	0	0	0
390.00	Office Furniture & Equip.	(2,700)	0	0	(2,700)	(2,700)	0
391.00	Transportation Equip.	(16,200)	0	0	(16,200)	(16,200)	0
393.00	Tools, Shop & Garage Equip.	(418)	0	(38)	(456)	(512)	56
394.00	Laboratory Equip.	(220)	0	(20)	(240)	(270)	30
395.00	Power Operated Equip.	0	0	0	0	0	0
396.00	Communication Equip.	(11,600)	0	0	(11,600)	(11,600)	0
397.00	Miscellaneous Equip.	(440)	(32)	(40)	(512)	(540)	28
	Total	(\$2,218,473)	(\$51,876)	(\$34,601)	(\$2,304,950)	(\$2,304,975)	\$26

Finding 5: Accumulated Depreciation - Water

Audit Analysis: The Utility's general ledger reflects a balance of \$2,343,557 for water accumulated depreciation as of March 31, 2011.

We performed the two procedures described below to sample and test the above balance as part of our audit investigation.

- We determined the water and wastewater accumulated depreciation balances as of July 1, 2002, that were established in Docket No. 030123-WS and the Utility's adjustment for the Order. See Finding 4.
- We recalculated a sample of water and wastewater depreciation account accruals in 2006 and 2009 to determine whether the Utility used the depreciation rates established for a Class B size utility in Rule 25-30.140, F.A.C. No adjustments are needed.

The Utility's water accumulated depreciation balance should be reduced by \$399,864, as of March 31, 2011, based on the effect of our adjustments to plant in service balances described in Findings 1 and 4 and as further discussed below.

1. In Finding 1, we reduced water plant in service by \$22,328. The cumulative effect of this adjustment reduces the Utility's water accumulated depreciation account balance by \$27,965. (invoice adjustments of \$1,964 and retirements of \$26,001) See Schedule D that follows.
2. In Finding 3, we reduced the water accumulated depreciation account balance by \$276,039.
3. In Finding 4, we reduced the water accumulated depreciation account balance by \$114,278. See prior Schedule B.
4. We recalculated the Utility's water accumulated depreciation balance for the period July 1, 2002, through March 31, 2011, using our adjusted water plant in service balances from this proceeding and the depreciation rates prescribed in Rule 25-30.140, F.A.C. We compared our calculated balance to the Utility's accumulated depreciation balance after including the adjustments identified in Items 1 and 2 above. The difference will increase the Utility's accumulated depreciation balance by \$17,827. This true-up adjustment accounts for errors in the Utility's calculated adjustment described in Finding 4 and the differing depreciation methods used by the Utility and audit staff in our calculations. See Schedule E that follows.

The calculation for the audit adjustment described in Item No. 3 above determined a test year water depreciation expense of \$68,499 for the 12-month period ending March 31, 2011. This amount includes the effect of all of our adjustments to water plant in service discussed in this report. Therefore, we have reduced the Utility's test year depreciation expense by \$15,219. See Schedule F that follows.

Effect on the General Ledger: Reduce water accumulated depreciation and depreciation expense by \$124,417 and \$15,219, respectively, for the 12-month period ending March 31, 2011.

Schedule D for Finding 5

Invoice Audit Adjustments

Line	Date	Ref#	Acct	Vendor	Utility Amount		UPIS Adjust.	Acct	Rule Dep. Rate	Accumulated Depreciation & Dep. Expense Adjustment							Total
										Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Mar-10	Mar-11	
49	01/29/11	51824	304	Freedom Fire Protection	\$855	NU	(\$855)	304	3.13%	\$0	\$0	\$0	\$0	\$0	\$0	(\$7)	(\$7)
3	02/09/05	36243	371	Central Electric	\$0	W	\$1,619	311	5.00%	\$74	\$81	\$81	\$81	\$81	\$20	\$81	\$499
8	05/26/05	36795	311	Central Electric	2,242	RR	(2,242)	311	5.00%	(75)	(112)	(112)	(112)	(112)	(28)	(112)	(663)
9	06/06/05	36913	371	Central Electric	0	W/R	3,791	311	5.00%	111	190	190	190	190	47	190	1,106
9	06/06/05	36913	371	Central Electric	0	W/R	(2,843)	311	5.00%	(83)	(142)	(142)	(142)	(142)	(36)	(142)	(829)
23	04/13/06	38429	311	Central Electric	6,940	R	(5,205)	311	5.00%	0	(174)	(174)	(174)	(174)	(65)	(260)	(1,019)
33	04/10/08	41819	311	Central Electric	4,008	R	(3,006)	311	5.00%	0	0	0	(100)	(100)	(38)	(150)	(388)
42	07/28/09	44198	371	Central Electric	0	W	2,274	311	5.00%	0	0	0	0	57	28	114	199
45	04/14/10	45368	311	Central Electric	4,801	R	(3,601)	311	5.00%	0	0	0	0	0	0	(180)	(180)
46	05/07/10	45051	311	Central Electric	<u>11,028</u>	R	<u>(8,271)</u>	311	5.00%	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(379)</u>	<u>(379)</u>
					\$29,019		(\$17,484)	311		\$27	(\$157)	(\$157)	(\$257)	(\$201)	(\$70)	(\$840)	(\$1,655)
1	01/01/05	1800	364	Florida Instrument	\$0	W	\$1,273	334	5.00%	\$64	\$64	\$64	\$64	\$64	\$16	\$64	\$398
4	02/28/05	1819	364	Florida Instrument	0	W	2,439	334	5.00%	112	122	122	122	122	30	122	752
10	06/27/05	1956	334	Florida Instrument	<u>2,975</u>	S	<u>(2,975)</u>	334	5.00%	<u>(87)</u>	<u>(149)</u>	<u>(149)</u>	<u>(149)</u>	<u>(149)</u>	<u>(37)</u>	<u>(149)</u>	<u>(868)</u>
					\$2,975		\$736	334		\$89	\$37	\$37	\$37	\$37	\$9	\$37	\$282
14	08/31/05	109624	335	Wayne Fire Sprinklers	\$1,650	OM	(\$1,650)	335	2.22%	(\$15)	(\$37)	(\$37)	(\$37)	(\$37)	(\$9)	(\$37)	(\$208)
17	10/27/05	25803	335	Cent. Fla Fire Protection	<u>4,100</u>	R	<u>(3,075)</u>	335	2.22%	<u>(17)</u>	<u>(68)</u>	<u>(68)</u>	<u>(68)</u>	<u>(68)</u>	<u>(17)</u>	<u>(68)</u>	<u>(376)</u>
					\$5,750		(\$4,725)	335		(\$32)	(\$105)	(\$105)	(\$105)	(\$105)	(\$26)	(\$105)	(\$584)
Water UPIS & Acc/Dep Adjustment					<u>\$38,599</u>		<u>(\$22,328)</u>			<u>\$83</u>	<u>(\$225)</u>	<u>(\$225)</u>	<u>(\$326)</u>	<u>(\$269)</u>	<u>(\$87)</u>	<u>(\$915)</u>	<u>(\$1,964)</u>
							Sum of Retirements =										(\$26,001)

Legend:

S	Should have been posted to sewer account	OM	Should have been posted to O&M expense
W	Should have been posted to water account	R	Should have included retirement amount
NS	No supporting documents provided	RR	Should have been posted to River Ranch system
NU	Non-utility expense	W/R	Should have been posted to water account with retirement amount

Schedule E for Finding 5

Water Accumulated Depreciation

Acc#	Account Description	Utility Balance @03/31/2011	Audit Adjustments					Audit Balance @03/31/2011
			Order	Invoices	Retirements	PHFU	True-up	
301.00	Organization	\$0	\$0	\$0	\$0	\$0	\$0	\$0
302.00	Franchises	0	0	0	0	0	0	0
304.00	Structures & Improvements	(320,976)	18,247	7	0	270,165	14,285	(18,273)
305.00	Collecting & Impounding Reser.	0	0	0	0	0	0	0
306.00	Lake, River & Other Intakes	0	0	0	0	0	0	0
307.00	Wells & Springs	(264,867)	5,800	0	0	4,609	4,268	(250,190)
309.00	Supply Mains	0	0	0	0	0	0	0
310.00	Power Generation Equipment	(106,760)	0	0	0	0	0	(106,760)
311.00	Pumping Equipment	(93,790)	3,945	1,655	22,926	1,265	(5,402)	(69,400)
320.00	Water Treatment Equipment	(7,900)	(944)	0	0	0	944	(7,900)
330.00	Distribution Reser. & Standpipes	(46,876)	3,002	0	0	0	(1,016)	(44,891)
331.00	Transmission & Distribution Mains	(1,143,644)	67,271	0	0	0	(21,768)	(1,098,141)
333.00	Services	(62,957)	3,680	0	0	0	(1,229)	(60,506)
334.00	Meters & Meter Installations	(221,968)	11,728	(282)	0	0	(8,022)	(218,544)
335.00	Hydrants	(37,991)	901	584	3,075	0	522	(32,909)
336.00	Backflow Prevention Devices	0	0	0	0	0	0	0
339.00	Other Plant & Misc. Equipment	0	0	0	0	0	0	0
340.00	Office Furniture & Equipment	(13,022)	0	0	0	0	(444)	(13,466)
341.00	Transportation Equipment	(13,920)	0	0	0	0	0	(13,920)
343.00	Tools, Shop, & Garage Equipment	(2,955)	269	0	0	0	(269)	(2,955)
345.00	Power Operated Equipment	(1,751)	141	0	0	0	(50)	(1,660)
346.00	Communication Equipment	(1,800)	0	0	0	0	0	(1,800)
347.00	Miscellaneous Equipment	0	0	0	0	0	0	0
348.00	Other Tangible Plant	(2,380)	238	0	0	0	(238)	(2,380)
	Total	(\$2,343,557)	\$114,278	\$1,964	\$26,001	\$276,039	(\$18,419)	(\$1,943,693)
	Sum of Audit Adjustments				\$399,863			

Schedule F for Finding 5

Water Depreciation Expense

Acct. No.	Description	12-Month Period Ending 03/31/2011		
		Per Utility	Adjustment	Per Audit
301.00	Organization	\$0	\$0	\$0
302.00	Franchises	0	0	0
304.00	Structures & Improvements	16,735	(14,312)	2,423
304.50	Structures & Improvements-General Plant	0	0	0
305.00	Collecting & Impounding Reservoirs	0	0	0
306.00	Lake, River & Other Intakes	0	0	0
307.00	Wells & Springs	10,077	(198)	9,879
309.00	Supply Mains	0	0	0
310.00	Power Generation Equipment	0	0	0
311.00	Pumping Equipment	5,390	(852)	4,538
320.00	Water Treatment Equipment	0	0	0
330.00	Distribution Reservoirs & Standpipes	2,240	2	2,242
331.00	Transmission & Distribution Mains	44,847	(85)	44,762
333.00	Services	2,454	0	2,454
334.00	Meters & Meter Installations	0	0	0
335.00	Hydrants	1,659	(104)	1,555
336.00	Backflow Prevention Devices	0	0	0
339.00	Other Plant & Miscellaneous Equipment	0	0	0
340.00	Office Furniture & Equipment	202	444	646
341.00	Transportation Equipment	0	0	0
343.00	Tools, Shop, & Garage Equipment	0	0	0
345.00	Power Operated Equipment	116	(116)	0
346.00	Communication Equipment	0	0	0
347.00	Miscellaneous Equipment	0	0	0
348.00	Other Tangible Plant	0	0	0
	Total	\$83,718	(\$15,219)	\$68,499

Finding 6: Accumulated Depreciation-Wastewater

Audit Analysis: The Utility's general ledger reflects a balance of \$2,540,965 for accumulated depreciation as of March 31, 2011.

We performed the two procedures described below to sample and test the above balances as part of our audit investigation.

- We determined the water and wastewater accumulated depreciation balances as of July 1, 2002, that were established in Docket No. 030123-WS.
- We recalculated a sample of water and wastewater depreciation account accruals in 2006 and 2009 to determine whether the Utility used the depreciation rates established for a Class B size utility in Rule 25-30.140, F.A.C.

The Utility's wastewater accumulated depreciation balances should be reduced by \$58,637, as of March 31, 2011, based on the procedures we performed above and the effect of our adjustments to plant in service balances described in Findings 2 and 4 and as further discussed below.

1. In Finding 2, we reduced wastewater plant in service by \$30,288. The cumulative effect of this adjustment reduces the Utility's wastewater accumulated depreciation account balance by \$26,331 (Invoice adjustments of \$6,518 and retirements of \$19,813). See Schedule G that follows.
2. In Finding 4, we increased the wastewater accumulated depreciation account balance by \$26. See prior Schedule C.
3. We recalculated the Utility's wastewater accumulated depreciation balance for the period July 1, 2002, through March 31, 2011, using our adjusted wastewater plant in service balances from this proceeding and the depreciation rates prescribed in Rule 25-30.140, F.A.C. We compared our calculated balance to the Utility's accumulated depreciation balance after including the adjustments identified in Items 1 and 2 above. The difference will reduce the Utility's accumulated depreciation balance by \$32,281. This true-up adjustment accounts for errors in the Utility's calculated adjustment described in Finding 4 and the differing depreciation methods used by the Utility and audit staff in our calculations. See Schedule H that follows.

The calculation for the audit adjustment described in Item No. 3 above determined a test year wastewater depreciation expense of \$37,483 for the 12-month period ending March 31, 2011. This amount includes the effect of all of our adjustments to wastewater plant in service discussed in this report. Therefore, we have reduced the Utility's test year wastewater depreciation expense by \$760. See Schedule I that follows.

Effect on the General Ledger: Reduce wastewater accumulated depreciation and depreciation expense by \$58,638 and \$760, respectively, for the 12-month period ending March 31, 2011.

Schedule G for Finding 6

Invoice Audit Adjustments

Line	Date	Ref#	Acct	Vendor	Utility Amount		UPIS Adjust.	Acct	Rule Dep. Rate	Accumulated Depreciation & Dep. Expense Adjustment							
										Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Mar-10	Mar-11	Total
50	01/29/11	51824	354	Freedom Fire Protection	\$855	NU	(\$855)	354	3.13%	\$0	\$0	\$0	\$0	\$0	\$0	(\$7)	(\$7)
1	01/01/05	1800	364	Florida Instrument	1,273	W	(1,273)	364	20.00%	(255)	(255)	(255)	(255)	(255)	(64)	(255)	(1,591)
4	02/28/05	1819	364	Florida Instrument	2,439	W	(2,439)	364	20.00%	(447)	(488)	(488)	(488)	(488)	(122)	(488)	(3,008)
10	06/27/05	1956	334	Florida Instrument	<u>0</u>	S	<u>2,975</u>	364	20.00%	<u>347</u>	<u>595</u>	<u>595</u>	<u>595</u>	<u>595</u>	<u>149</u>	<u>595</u>	<u>3,471</u>
					\$3,711		(\$736)	364		(\$355)	(\$147)	(\$147)	(\$147)	(\$147)	(\$37)	(\$147)	(\$1,128)
28	12/18/06	39709	370	Central Electric	\$6,377	R	(\$4,783)	370	3.33%	\$0	(\$13)	(\$159)	(\$159)	(\$159)	(\$40)	(\$159)	(\$691)
31	02/12/07	25359	370	Lapin Septic Tank	<u>1,200</u>	OM	<u>(1,200)</u>	370	3.33%	<u>0</u>	<u>0</u>	<u>(30)</u>	<u>(40)</u>	<u>(40)</u>	<u>(10)</u>	<u>(40)</u>	<u>(160)</u>
					\$7,577		(\$5,983)	370		\$0	(\$13)	(\$189)	(\$199)	(\$199)	(\$50)	(\$199)	(\$851)
3	02/09/05	36243	371	Central Electric	\$1,619	W	(\$1,619)	371	5.56%	(\$82)	(\$90)	(\$90)	(\$90)	(\$90)	(\$22)	(\$90)	(\$555)
9	06/06/05	36913	371	Central Electric	3,791	W/R	(3,791)	371	5.56%	(123)	(211)	(211)	(211)	(211)	(53)	(211)	(1,229)
20	11/15/05	37571	371	Central Electric	3,665	R	(2,749)	371	5.56%	(25)	(153)	(153)	(153)	(153)	(38)	(153)	(827)
25	08/16/06	38841	371	Central Electric	7,506	R	(5,630)	371	5.56%	0	(130)	(313)	(313)	(313)	(78)	(313)	(1,460)
42	07/28/09	44198	371	Central Electric	2,274	W	(2,274)	371	5.56%	0	0	0	0	(63)	(32)	(126)	(221)
47	08/31/10	88	371	Central Electric	7,491	R	(5,618)	371	5.56%	0	0	0	0	0	0	(208)	(208)
48	09/18/10	45955	371	Central Electric	<u>1,379</u>	R	<u>(1,034)</u>	371	5.56%	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(34)</u>	<u>(34)</u>
					\$27,724		(\$22,714)	371		(\$231)	(\$584)	(\$766)	(\$766)	(\$829)	(\$223)	(\$1,134)	(\$4,532)
Wastewater UPIS & Acc/Dep Adjustment					<u>\$39,868</u>		<u>(\$30,288)</u>			<u>(\$585)</u>	<u>(\$744)</u>	<u>(\$1,103)</u>	<u>(\$1,113)</u>	<u>(\$1,176)</u>	<u>(\$310)</u>	<u>(\$1,487)</u>	<u>(\$6,518)</u>

Sum of Retirements = (\$19,813)

Legend:

S	Should have been posted to sewer account	OM	Should have been posted to O&M expense
W	Should have been posted to water account	R	Should have included retirement amount
NS	No supporting documents provided	RR	Should have been posted to River Ranch system
NU	Non-utility expense	W/R	Should have been posted to water account with retirement amount

Schedule H for Finding 6

Wastewater Accumulated Depreciation

Acc#	Account Description	Utility Balance	Audit Adjustments				Audit Balance
		@ 03/31/2011	Order	Invoices	Retirements	True-up	@ 03/31/2011
351.00	Organization	\$0	\$0	\$0	\$0	\$0	\$0
352.00	Franchises	0	0	0	0	0	0
354.00	Structures & Improvements	(60,981)	2,844	7	0	(342)	(58,472)
355.00	Power Generating Equipment	0	0	0	0	0	0
360.00	Collection - Sewers forced	(71,577)	(2,011)	0	0	4,077	(69,511)
361.00	Collection - Sewers gravity	(398,464)	22,606	0	0	(7,575)	(383,434)
362.00	Special Collecting Structures	0	(133)	0	0	133	0
363.00	Services to customers	(56,383)	3,296	0	0	(1,110)	(54,197)
364.00	Flow Measuring Devices	(6,011)	0	1,128	0	(392)	(5,275)
365.00	Flow Measuring Installations	0	0	0	0	0	0
370.00	Lift Stations	(194,277)	10,515	851	4,783	(3,509)	(181,636)
371.00	Pumping Equipment	(90,273)	4,856	4,532	15,030	(3,097)	(68,952)
374.00	Reuse Dist Reservoirs	(3,724)	235	0	0	(82)	(3,571)
370.00	Receiving Wells	0	0	0	0	0	0
380.00	Treatment & Disposal Equipment	(1,589,633)	(42,954)	0	0	42,954	(1,589,633)
381.00	Plant Sewers	0	0	0	0	(34,808)	(34,808)
382.00	Outfall Sewer Lines	0	657	0	0	(657)	0
389.00	Other Plant & Miscellaneous Equipment	(37,111)	0	0	0	37,111	0
390.00	Office Furniture & Equipment	(2,893)	0	0	0	(311)	(3,204)
391.00	Transportation Equipment	(16,200)	0	0	0	0	(16,200)
393.00	Tools, Shop, & Garage Equipment	(685)	56	0	0	(56)	(685)
394.00	Laboratory Equipment	(300)	30	0	0	(30)	(300)
395.00	Power Operated Equipment	(252)	0	0	0	0	(252)
396.00	Communication Equipment	(11,600)	0	0	0	0	(11,600)
397.00	Miscellaneous Equipment	(600)	28	0	0	(28)	(600)
	Total	(\$2,540,965)	\$26	\$6,518	\$19,813	\$32,281	(\$2,482,328)
	Sum of Audit Adjustments			\$58,638			

Schedule I for Finding 6

Wastewater Depreciation Expense

Acct. No.	Description	12-Month Period Ending 03/31/2011		
		Per Utility	Adjustment	Per Audit
351.00	Organization	\$0	\$0	\$0
352.00	Franchises	0	0	0
354.00	Structures & Improvements	2,684	210	2,893
355.00	Power Generating Equipment	0	0	0
360.00	Collection - Sewers forced	2,411	2	2,413
361.00	Collection - Sewers gravity	15,514	16	15,530
362.00	Special Collecting Structures	0	0	0
363.00	Services to customers	2,198	0	2,198
364.00	Flow Measuring Devices	0	0	0
365.00	Flow Measuring Installations	0	0	0
370.00	Lift Stations	7,974	(191)	7,783
371.00	Pumping Equipment	5,492	(1,008)	4,484
374.00	Reuse Dist Reservoirs	156	1	157
370.00	Receiving Wells	0	0	0
380.00	Treatment & Disposal Equipment	0	0	0
381.00	Plant Sewers	1,562	(96)	1,466
382.00	Outfall Sewer Lines	0	0	0
389.00	Other Plant & Miscellaneous Equipment	0	0	0
390.00	Office Furniture & Equipment	159	345	504
391.00	Transportation Equipment	0	0	0
393.00	Tools, Shop, & Garage Equipment	40	(38)	2
394.00	Laboratory Equipment	0	0	0
395.00	Power Operated Equipment	53	0	53
396.00	Communication Equipment	0	0	0
397.00	Miscellaneous Equipment	0	0	0
398.00	Other Tangible Plant	0	0	0
	Total	\$38,243	(\$760)	\$37,483

Finding 7: Capital Structure

Audit Analysis: The Utility's general ledger reflects the following accounts and balances for its capital structure as of March 31, 2011.

Acct. No.	Description	Balance	
		Mar-10	Mar-11
201000	Common Stock	\$1	\$1
211000	Paid in Capital	1,248,722	1,248,722
215000	Accumulated Deficit (Retained Earnings)	(763,783)	(763,783)
233000	A/P Central Florida Investments	<u>85,207</u>	<u>119,014</u>
		\$570,147	\$603,954

Grenelefe Resort Utility, Inc. is a subsidiary of Central Florida Investments, Inc. (CFI) Its operations and earnings (losses) roll forward to and are consolidated within CFI's federal tax return. CFI is incorporated within the State of Florida and files an 1120S Corporation federal tax return. The David Siegel Irrevocable Trust is the sole shareholder and owner of CFI and all income (losses) generated by CFI flow through to the sole shareholder.

We reviewed CFI's 2009 federal tax return (2010 has not been filed). Schedule L of that tax return indicates the following balances as of December 31, 2009.

Net Assets	<u>\$216,691,684</u>
Current Liabilities	\$9,624,315
Other Liabilities	736,580
Shareholder Loans	25,493,076
Mortgage Debt	27,357,464
Net Owners Equity	<u>153,480,249</u>
Net Liabilities & Equity	<u>\$216,691,684</u>

The Utility's capital structure in its 2010 annual report reflects an equity balance of \$450,101 with no outstanding long-term debt.

Based on the above information the Utility's capital structure, when reconciled to rate base, is 100 percent equity with a cost rate of 8.74 percent as determined by Order No. PSC-11-0287-PAA-WS.⁶

Effect on the General Ledger: None

⁶ Order No. PSC-11-0287-PAA-WS, issued July 5, 2011, Docket No. 110006, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

Finding 8: Operations and Maintenance Expense

Audit Analysis: The Utility's general ledger reflects the following balances for operations and maintenance (O&M) expense for the 12-month period ending March 31, 2011.

Water	\$228,805
Wastewater	\$192,683

The Utility's water and wastewater O&M expense balances should be increased by \$16,081 and \$19,444, respectively, based on the following audit adjustments.

1. We have increased Acct. Nos. 601/701-Salaries by \$22,078 each, based on the following adjustments.
 - a. We have increased water and wastewater salaries for three employees by \$1,401 each, to the actual gross salary amount paid to each of the three employees.
 - b. We have increased water and wastewater salaries for one employee by \$20,678, each, to include the utility office manager's salary that was not included in the Utility's general ledger balance.
2. We have reduced Acct. Nos. 604/704 Pension and Benefits by \$247 each, to record the actual benefit expenses paid for the four employees identified above.
3. We have reduced Acct. No. 711-Sludge Hauling to remove and reclassify \$650 of sludge testing expense to Acct. No. 735-Contract Services Testing.
4. We have reduced Acct. Nos. 615/715-Purchased Power by \$1,705 and \$31, respectively, to record the actual electric bills for the 12-month test year.
5. We have reduced and increased Acct. Nos. 620/720-Material & Supplies by \$93 and \$257, respectively, based on the following adjustments.
 - a. We made offsetting adjustments that increased the water and decreased the wastewater balances by \$961 for invoices that the Utility split equally between each system that were related to the water system only.
 - b. We made offsetting adjustments that reduced the water and increased the wastewater balances by \$858 for invoices that the Utility split equally between each system that were related to the wastewater system only.
 - c. We removed a transaction totaling \$418 (\$209 each for water/wastewater) that was not supported by utility documentation.
 - d. We reduced an invoice totaling \$889 (\$444 each for water/wastewater) by \$13 to its actual amount of \$876 for two sewage pumps. We removed \$444 from the water system and increased the wastewater system by \$432.
 - e. We removed a December reversing entry totaling \$273 (\$136 for water and \$137 for wastewater) that was not supported by utility documentation and posted in error.
 - f. We increased the water system balance by \$321 for an invoice for locks that were not originally included.

6. We have reduced Acct. No. 631 Contract Services Engineering by \$4,800 to remove and reclassify two invoices to inspect the water tanks at River Ranch Water Management, LLC a sister system owned by CFI.
7. We have reduced and increased Acct. Nos. 635/735 Contract Services Testing by \$202 and \$325, respectively, based on the following adjustments.
 - a. We reduced the water system amount by \$171 to remove three general ledger transactions. One for an invoice totaling \$17 that was for the prior period and two transactions totaling \$154 that were not supported by utility documentation.
 - b. We reduced the water system amount by \$31 to record the actual cost for testing water samples that were indicated on 12 invoices.
 - c. We increased the wastewater system by \$325 which incorporates the two invoices reclassified in Item 3 above. We reviewed and only included four invoices for the quarterly sludge testing during the 12-month test year period.
8. We have increased and reduced Acct. Nos. 636/736 Contract Services Other by \$367 and \$971, respectively, based on the following adjustments.
 - a. We made offsetting adjustments that increased the water and reduced the wastewater balances by \$367 for an invoice that the Utility split equally between each system that was related to the water system only.
 - b. We removed two invoices totaling \$560 from the wastewater system. One invoice for \$335 was outside our test year and the second invoice for \$225 lacked supporting documentation.
 - c. We reduced two general ledger transactions totaling \$669 in the wastewater system by \$44 to the actual invoice amount of \$625 for repairs to a lift station and the wastewater plant clarifier.
9. We have increased Acct. Nos. 642/742 Rental Equipment by \$507 (\$253 for water and \$254 for wastewater) to include three quarterly invoices for the lease of a postage meter that were originally posted to a nonutility account.
10. We have reduced Acct. Nos. 656/756 Insurance-Vehicle by \$440 (\$220 each for water/wastewater) to adjust and annualize the Utility's automobile insurance based on the insurance policy in effect beginning January 2011.
11. We have increased and reduced Acct. Nos. 675/775 Miscellaneous Expense by \$649 and \$1,351, respectively, based on the following adjustments.
 - a. We made offsetting adjustments that increased the water and decreased the wastewater balances by \$1,000 for an invoice to renew the Utility's annual drinking water permit in Polk County.
 - b. We removed an invoice totaling \$701 (\$351 each for water/wastewater) for an annual permit fee for the resort's boat slip on Lake Marion, a nonutility expense.

See Schedules J and K that follow for the summarized detail of our water and wastewater adjustments discussed above.

Additionally, the Utility's working capital adjustment for water and wastewater rate base inclusion is \$30,611 and \$26,516, respectively. These balances represent one-eighth of the water and wastewater O&M expense balances of \$244,886 and \$212,127, respectively that we compiled for this proceeding.

Effect on the General Ledger: None

Schedule J for Finding 8

Water Operations & Maintenance Expense

Acct No.	Description	Balance for the 12-Month Period Ending March 31, 2011		
		Per Utility	Audit Adjustment	Per Audit
601.00	Salaries	\$63,613	\$22,078	\$85,691
604.00	Pension & Benefits	1,159	(247)	912
615.00	Purchased Power	71,372	(1,705)	69,668
618.00	Chemicals	6,298	0	6,298
620.00	Materials & Supplies	4,344	(93)	4,251
631.00	CS - Engineering	4,800	(4,800)	0
632.00	CS - Accounting	6,242	0	6,242
634.00	CS - Management	48,000	0	48,000
635.00	CS - Testing	699	(203)	496
636.00	CS - Other	7,939	367	8,306
642.00	Rental of Equipment	90	254	344
650.00	Transportation	2,106	0	2,106
656.00	Insurance - Vehicle	597	(220)	377
658.00	Insurance - Workman's Comp.	538	0	538
670.00	Bad Debt Expense	5,594	0	5,594
675.00	Misc. Exp - Admin	<u>5,414</u>	<u>649</u>	<u>6,064</u>
		\$228,805	\$16,081	\$244,886
	Working Capital (1/8th of O&M Expense)			\$30,611

Schedule K for Finding 8

Wastewater Operations & Maintenance Expense

Acct No.	Description	Balance for the 12-Month Period Ending March 31, 2011		
		Per Utility	Audit Adjustment	Per Audit
701.00	Salaries	\$63,613	\$22,078	\$85,691
704.00	Pension & Benefits	1,159	(247)	912
711.00	Sludge Removal	39,150	(650)	38,500
715.00	Purchased Power	21,740	(31)	21,709
718.00	Chemicals	7,555	0	7,555
720.00	Materials & Supplies	4,344	257	4,601
731.00	CS - Engineering	0	0	0
732.00	CS - Accounting	6,242	0	6,242
734.00	CS - Management	22,000	0	22,000
735.00	CS - Testing	1,055	325	1,380
736.00	CS - Other	11,485	(971)	10,515
742.00	Rental of Equipment	90	254	344
750.00	Transportation	2,106	(0)	2,106
756.00	Insurance - Vehicle	597	(220)	377
758.00	Insurance - Workman's Comp.	538	0	538
770.00	Bad Debt Expense	5,594	0	5,594
775.00	Misc. Exp - Admin	<u>\$5,414</u>	<u>(1,351)</u>	<u>\$4,064</u>
		\$192,683	\$19,444	\$212,127
	Working Capital (1/8th of O&M Expense)			\$26,516

Finding 9: Taxes Other Than Income

Audit Analysis: The Utility's general ledger reflects the following amounts for water and wastewater Taxes Other Than Income (TOTI) for the 12-month period ending March 31, 2011.

	Water	Wastewater
Regulatory Assessment Fees	\$13,890	\$7,636
Property Taxes	17,653	17,653
Payroll Taxes	<u>5,404</u>	<u>5,404</u>
	\$36,947	\$30,693

The Utility's water and wastewater TOTI expense balances should be reduced by \$1,297 and \$546, respectively, based on the following audit adjustments.

1. We have reduced water property taxes by \$1,645 to the discounted actual amount on the property tax bills.
 - a. We reduced water real estate taxes by \$464 to \$54 which is the discounted amount payable on the actual tax bill of \$56 for the water plant site.
 - b. We reduced water tangible taxes by \$1,181 to \$15,954 which is one-half of the total discounted amount that was payable on the actual tax bill of \$33,237 for the tangible tax assessed on the Utility's water and wastewater plant equipment.

2. We have reduced wastewater property taxes by \$894 to the discounted actual amount on the individual property tax bills.
 - a. We increased wastewater real estate taxes by \$287 to \$805 which is the discounted amount payable on the actual tax bill of \$838 for the wastewater plant site.
 - b. We reduced wastewater tangible taxes by \$1,181 to \$15,954 which is one-half of the total discounted amount that was payable on the actual tax bill of \$33,237 for the tangible tax assessed on the Utility's water and wastewater plant equipment.

3. We have increased payroll taxes by \$696 (\$348 each for water/wastewater) based on the actual payroll expense that we determined in Item 1 of Finding 8 above.

See Schedules L and M that follow for calculations and details.

Effect on the General Ledger: None

Schedule L for Finding 8

Taxes Other Than Income

408110/408210 - Regulatory Assessment Fees

Date	Vendor	Total	Water	W/Water	Description
03/31/11	RAFs	\$21,526	\$13,890	\$7,636	Sum of monthly accruals for RAF's

408111/408211 - Property Tax

Date	Vendor	Total	Water	W/Water	Description
03/31/11	Real Estate Tax	\$1,034	\$517	\$517	Sum of monthly accruals for Real Estate Tax
03/31/11	Tangible Tax	<u>\$34,271</u>	<u>\$17,136</u>	<u>\$17,136</u>	Sum of monthly accruals for Tangible Tax
		\$35,306	\$17,653	\$17,653	

408112/408212 - Payroll Tax

Date	Vendor	Total	Water	W/Water	Description
03/31/11	Payroll Tax	\$10,808	\$5,404	\$5,404	Sum of monthly accruals for Payroll Tax

TOTI	Per Utility	\$67,641	\$36,947	\$30,693	
		696	348	348	Adjust Payroll Tax accrual to actual
		(176)	(464)	287	Adjust Real Estate Tax accrual to actual
		<u>(2,363)</u>	<u>(1,182)</u>	<u>(1,182)</u>	Adjust Tangible Tax accrual to actual
	Adjustment	(\$1,844)	(\$1,297)	(\$546)	
TOTI	Per Audit	\$65,797	\$35,650	\$30,147	

Schedule M for Finding 8

Parcel ID Number	Total	Water	W/Water Description
Per Utility 062828-000000-022010	\$56	\$28	\$28 Paid Real Estate Tax WP Well #6
Per Utility 082828-000000-043020	<u>723</u>	<u>0</u>	<u>723</u> Paid Real Estate Tax WWTP
	\$779	\$28	\$751 Paid Real Estate Taxes

Parcel ID Number	Total	Water	W/Water Description
Per Audit 062828-000000-022010	\$54	\$54	\$0 Real Estate Tax WP #6 with 4% discount
Per Audit 082828-000000-043020	<u>805</u>	<u>0</u>	<u>805</u> Real Estate Tax WWTP with 4% discount
	\$858	\$54	\$805 Actual Real Estate Tax

Adjustment to Actual	Total	Water	W/Water Description
Per Audit Actual Real Estate Tax	\$858	\$54	\$805 Actual Real Estate Tax
Per G/L Real Estate Tax Accrual	<u>1,034</u>	<u>517</u>	<u>517</u> Sum of monthly accruals for Real Estate Tax
	(\$176)	(\$464)	\$287 Adjust Real Estate Tax accrual to actual

Parcel ID Number	Total	Water	W/Water Description
Per Utility 000000-000020-000500	\$33,237	\$16,619	\$16,619 Paid Tangible Tax bill

Parcel ID Number	Total	Water	W/Water Description
Per Audit 000000-000020-000500	\$31,908	\$15,954	\$15,954 Tangible Tax bill with 4% discount

Adjustment to Actual	Total	Water	W/Water Description
Per Audit Actual Tangible Tax	\$31,908	\$15,954	\$15,954 Actual Tangible Tax
Per G/L Tangible Tax Accrual	<u>\$4,271</u>	<u>\$17,136</u>	<u>\$17,136</u> Sum of monthly accruals for Tangible Tax
	\$27,637	(\$1,182)	(\$1,182) Adjust Tangible Tax accrual to actual

The Per Utility amounts above represent the actual amount paid by the Utility for the respective property tax. The Per G/L amounts above represents the sum of twelve monthly accruals posted to the Utility's general ledger during the test year. The general ledger does not include a true-up to the actual amount that was paid by the utility.

Exhibits

Exhibit 1: Water Rate Base

**GRENELEFE RESORT UTILITY, INC.
12-MONTH PERIOD ENDED MARCH 31, 2011
DOCKET NO. 110141-WS**

DESCRIPTION	PER UTILITY	AUDIT ADJUSTMENTS	PER AUDIT
UTILITY PLANT IN SERVICE (a)	\$3,504,720	(\$493,254)	\$3,011,466
LAND AND LAND RIGHTS	\$7,000	\$0	\$7,000
CONTRIBUTIONS IN AID OF CONSTRUCTION	(\$2,302,685)	\$0	(\$2,302,685)
ACCUMULATED AMORTIZATION OF CIAC	\$1,524,464	\$0	\$1,524,464
ACCUMULATED DEPRECIATION (a)	(\$2,343,557)	\$400,456	(\$1,943,101)
WORKING CAPITAL (b)	\$0	\$30,611	\$30,611
	-----	-----	-----
NET RATE BASE (c)	\$389,942	(\$62,187)	\$327,755

Notes to above schedule:

- a) Includes Property Held for Future Use adjustment.
- b) Working Capital is calculated as 1/8th of the test year operation and maintenance expense balance displayed in Exhibit 3 of this report.
- c) All amounts are rounded to the nearest whole dollar.

Exhibit 2: Wastewater Rate Base

**GRENELEFE RESORT UTILITY, INC.
12-MONTH PERIOD ENDED MARCH 31, 2011
DOCKET NO. 110141-WS**

DESCRIPTION	PER UTILITY	AUDIT ADJUSTMENTS	PER AUDIT
UTILITY PLANT IN SERVICE	\$2,975,704	(\$30,287)	\$2,945,417
LAND AND LAND RIGHTS	\$49,400	\$0	\$49,400
CONTRIBUTIONS IN AID OF CONSTRUCTION	(\$1,051,361)	\$0	(\$1,051,361)
ACCUMULATED AMORTIZATION OF CIAC	\$707,138	\$0	\$707,138
ACCUMULATED DEPRECIATION	(\$2,540,965)	\$58,637	(\$2,482,328)
WORKING CAPITAL (a)	\$0	\$26,516	\$26,516
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NET RATE BASE (b)	\$139,916	\$54,866	\$194,782

Notes to above schedule:

- a) Working Capital is calculated as 1/8th of the test year operation and maintenance expense balance displayed in Exhibit 4 of this report.
- b) All amounts are rounded to the nearest whole dollar.

Exhibit 3: Water Net Operating Income

GRENELEFE RESORT UTILITY, INC.
12-MONTH PERIOD ENDED MARCH 31, 2011
DOCKET NO. 110141-WS

DESCRIPTION	PER UTILITY	AUDIT ADJUSTMENTS	PER AUDIT
REVENUES	\$308,442	\$0	\$308,442
OPERATION AND MAINTENANCE EXPENSE	\$228,805	\$16,081	\$244,886
DEPRECIATION EXPENSE	\$83,718	(\$15,219)	\$68,499
CIAC AMORTIZATION EXPENSE	(\$61,539)	\$0	(\$61,539)
TAXES OTHER THAN INCOME TAX EXPENSE	\$36,947	(\$1,297)	\$35,650
PROVISION FOR INCOME TAX EXPENSE (a)	\$0	\$0	\$0
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OPERATING EXPENSE	\$287,931	(\$435)	\$287,496
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NET OPERATING INCOME (b)	\$20,511	\$435	\$20,946

Notes to above schedule:

- a) The Utility is a subsidiary of Central Florida Investments, Inc. which is an S-Corporation for federal income tax purposes. All income(losses) flow through to its owners. Therefore no income tax expense is included.
- b) All amounts are rounded to the nearest whole dollar.

Exhibit 4: Wastewater Net Operating Income

**GRENELEFE RESORT UTILITY, INC.
12-MONTH PERIOD ENDED MARCH 31, 2011
DOCKET NO. 110141-WS**

DESCRIPTION	PER UTILITY	AUDIT ADJUSTMENTS	PER AUDIT
REVENUES	\$169,690	\$0	\$169,690
OPERATION AND MAINTENANCE EXPENSE	\$192,683	\$19,444	\$212,127
DEPRECIATION EXPENSE	\$38,243	(\$760)	\$37,483
CIAC AMORTIZATION EXPENSE	(\$29,832)	\$0	(\$29,832)
TAXES OTHER THAN INCOME TAX EXPENSE	\$30,694	(\$547)	\$30,147
PROVISION FOR INCOME TAX EXPENSE (b)	\$0	\$0	\$0
	-----	-----	-----
OPERATING EXPENSE	\$231,788	\$18,137	\$249,925
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NET OPERATING INCOME (c)	(\$62,098)	(\$18,137)	(\$80,235)

Notes to above schedule:

- a) The Utility is a subsidiary of Central Florida Investments, Inc. which is an S-Corporation for federal income tax purposes. All income(losses) flow through to its owners. Therefore no income tax expense is included.
- b) All amounts are rounded to the nearest whole dollar.

Exhibit 5: Capital Structure

**GRENELEFE RESORT UTILITY, INC.
12-MONTH PERIOD ENDED MARCH 31, 2011
DOCKET NO. 110141-WS**

CLASS OF CAPITAL	BALANCE	ADJUSTMENTS	ADJUSTED BALANCE (a)	RATIO	COST RATE	WEIGHTED COST
COMMON EQUITY	\$603,954	(\$81,417)	\$522,537	100.00%	8.74%	8.74%
CUSTOMER DEPOSITS	0	0	0	0.00%	6.00%	0.00%
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TOTALS(b)	\$603,954	(\$81,417)	\$522,537	100.00%		8.74%

Notes to above schedule:

- a) Common Equity is reconciled to the sum of the water and wastewater rate base balance in this proceeding. (\$327,755 + \$194,782)
- b) Common Equity cost rate is set at 8.74% for 100% equity per Order No. PSC-11-0287-PAA-WS, issued July 5, 2011.
- c) All amounts are rounded to the nearest whole dollar.