

State of Florida



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

DATE: August 23, 2011
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CJP*
RE: Docket No.: 110140-WS
Company Name: River Ranch Water Management, L.L.C.
Company Code: WS850
Audit Purpose: Staff Assisted Rate Case
Audit Control No: 11-161-2-2

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

06049 AUG 23 =

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

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

Auditor's Report

River Ranch Water Management, L.L.C.
Staff Assisted Rate Case

12-Month Period Ending March 31, 2011

Docket No. 110140-WS
Audit Control No. 11-161-2-2
August 19, 2011

Handwritten signature of Jeffrey 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 River Ranch Water Management, L.L.C.'s request for a Staff Assisted Rate Case in Docket No. 110140-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

River Ranch Water Management, L.L.C. (the Utility) is a Class C utility that provides utility services to approximately 727 water and wastewater customers in Polk County, Florida. The Utility is managed and owned by Central Florida Investments, Inc. (CFI), the Utility's sole shareholder. Additionally, CFI owns and manages Grenelefe Resort Utility, Inc. which is also under the Florida Public Service Commission's jurisdiction.

Regulatory Proceedings

The Utility's Staff Assisted Rate Case Application for this proceeding was filed on May 10, 2011 in Docket No. 110140-WS.

The Utility's last proceeding before this Commission was an application for a staff assisted rate case in Docket No. 021067-WS. Order No. PSC-03-0740-PAA-WS was issued on June 23, 2003, in that proceeding. In that order the Commission established new rates for the Utility and made a determination of Rate Base as of December 31, 2002.

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) as adopted by the Commission.

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 rate case proceeding were recorded in its general ledger.

Procedures: We determined the balances for water and wastewater UPIS that were established in Docket No. 021067-WS, as of December 31, 2002. We reviewed and sampled additions to water and wastewater plant for the period January 1, 2003, 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.

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 rate case proceeding were recorded in its general ledger.

Procedures: We determined the balances for water and wastewater land that were established in Docket No. 021067-WS, as of December 31, 2002. We reconciled the Utility's water and wastewater land balances for this proceeding to the balances established in Order No. PSC-03-0740-PAA-WS. There were no changes to utility land since the rate case 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 rate case proceeding were recorded in its general ledger.

Procedures: We determined the balances for water and wastewater CIAC that were established in Docket No. 021067-WS, as of December 31, 2002. We reviewed and sampled additions to water and wastewater CIAC for the period January 1, 2003, 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 rate case 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 balances for water and wastewater Accumulated Depreciation that were established in Docket No. 021067-WS, as of December 31, 2002. We reviewed and sampled additions to accumulated depreciation for the period January 1, 2003, 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 Finding 4.

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 rate case proceeding were recorded in its general ledger.

Procedures: We determined the balances for water and wastewater Accumulated Amortization of CIAC that were established in Docket No. 021067-WS, as of December 31, 2002. We reviewed and sampled additions to Accumulated Amortization of CIAC for the period January 1, 2003, 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 6.

Net Operating Income

Operating Revenue

Objectives: Our objectives were to: 1) Determine that utility revenues are properly recorded in compliance with Commission rules and, are 2) 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: 1) Determine that Operation and Maintenance (O&M) expenses are properly recorded in compliance with NARUC USOA and Commission rules and, are 2) Representative of the Utility's ongoing 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 6.

Depreciation and CIAC Amortization Expense

Objectives: Our objectives were to: 1) Determine that depreciation and CIAC amortization expenses are properly recorded in compliance with Commission rules and, that they 2) 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, F.A.C. Our

recommended adjustments to water and wastewater depreciation expenses are discussed in Findings 1-3.

Taxes Other Than Income

Objectives: Our objectives were to: 1) Determine that Taxes Other Than Income (TOTI) expenses are properly recorded in compliance with Commission rules and, are 2) Reasonable 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 7.

Capital Structure

Objectives: Our objectives were to: 1) Determine the component balances for the Utility's capital structure, 2) Determine the cost rates to be used to arrive at the overall weighted cost of capital and, are 3) 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 5.

Audit Findings

Finding 1: Utility Plant in Service - Water

Audit Analysis: Utility records indicate that there was \$147,228 of gross asset additions to the Utility's water system since its last rate case proceeding. We requested supporting documentation for \$141,391 of these additions to sample and verify the Utility's reported ending balance of \$833,579 for its water system assets as of March 31, 2011.

Our review indicates that the Utility's water system asset balance is overstated by \$47,469 based on the following audit adjustments.

1. We have reduced Acct. No. 304-Structures and Improvements by \$18,683 to remove three (3) transactions that lacked supporting documentation that was recorded in 2003.
2. We have reduced Acct. No. 331-Transmission and Distribution Mains by \$5,826 to remove a transaction that lacked supporting documentation that was recorded in 2003.
3. We have reduced Acct. No. 334-Meters & Meter Installations by \$22,960 based on the following adjustments.
 - a. We have reduced the account by \$16,530 to remove a transaction that lacked supporting documentation that was recorded in 2003.
 - b. We have reduced the account by \$6,430 to remove two (2) transactions that lacked supporting documentation that were recorded in 2004.

The calculation and effect of our adjustments on the Utility's accumulated depreciation balance and test year depreciation expense are incorporated in Finding 4.

Effect on the General Ledger: The Utility's water UPIS balance should be reduced by \$47,469, as of March 31, 2011, as indicated below.

<u>Acct. No.</u>	<u>Account Description</u>	<u>UPIS Amount</u>
304	Structures and Improvements	(\$18,683)
331	Transmission & Distribution Mains	(5,826)
334	Meters and Meter Installations	<u>(22,960)</u>
	Total	(\$47,469)

Finding 2: Utility Plant in Service - Wastewater

Audit Analysis: Utility records indicate that there was \$912,719 of gross asset additions to the Utility's wastewater system since its last rate case proceeding. We requested supporting documentation for \$911,336 of these additions to sample and verify the Utility's reported ending balance of \$1,761,943 for its wastewater system assets as of March 31, 2011.

Our review indicates that the Utility's wastewater system asset balance is overstated by \$280,150 based on the following audit adjustments.

1. We have reduced Acct. No. 354-Structures and Improvements by \$183,401 based on the following adjustments.
 - a. We have reduced the account by \$34,809 to remove two (2) transactions that lacked supporting documentation that were recorded in 2003.
 - b. We have reduced the account by \$148,592 to remove a general ledger journal entry that lacked supporting documentation that was recorded in 2004.
2. We have reduced Acct. No. 370-Receiving Wells by \$61,982 based on the following adjustments.
 - a. We have reduced the account by \$6,365 to remove two (2) transactions that lacked supporting documentation that were recorded in 2003 and 2005.
 - b. We have reduced the account by including a retirement of \$2,123 for a transaction that replaced a lift station pump in 2003.
 - c. We have reduced the account by including retirements totaling \$53,494 for two (2) transactions that completely replaced and rebuilt two lift stations in 2005 and 2010.
3. We have reduced Acct. No. 371-Pumping Equipment by \$17,235 based on the following adjustments.
 - a. We have reduced the account by including retirements totaling of \$7,134 for three (3) transactions that replaced three (3) pumps at the wastewater plant in 2005.
 - b. We have reduced the account by including retirements totaling of \$2,278 for two (2) transactions that replaced two (2) surge pumps at the wastewater plant in 2006.
 - c. We have reduced the account by including a retirement of \$7,823 for a transaction that upgraded and replaced two (2) surge pumps and related controls at the wastewater plant in 2007.
4. We have reduced Acct. No. 380-Treatment and Disposal Equipment by \$17,533 to remove two (2) transactions that lacked supporting documentation that was recorded in 2003.

The calculation and effect of our adjustments on the Utility's accumulated depreciation balance and test year depreciation expense are incorporated in Finding 4.

Effect on the General Ledger: The Utility's wastewater UPIS balance should be reduced by \$280,150, as of March 31, 2011, as indicated below.

<u>Acct. No.</u>	<u>Account Description</u>	<u>UPIS Amount</u>
354	Structures and Improvements	(\$183,401)
370	Receiving Wells	(61,982)
371	Pumping Equipment	(17,235)
380	Treatment & Disposal Equipment	<u>(17,533)</u>
	Total	(\$280,150)

Finding 3: Property Held for Future Use - Wastewater

Audit Analysis: Order No. PSC- 03-0740-PAA-WS established a UPIS balance of \$849,224 for the Utility's wastewater system as of December 31, 2002.

The order included an adjustment to the Utility's wastewater UPIS balance that reclassified an old wastewater treatment plant to property held for future use. The order moved equal amounts from wastewater UPIS and accumulated depreciation for the old wastewater treatment plant to Acct. No. 103 - Property Held for Future Use. At the time, the Utility maintained that they planned to use the old plant as part of a future expansion of the wastewater plant. Subsequently, during our plant tour the Utility's representative stated that the old wastewater plant was now abandoned and that it would be disposed of in the future.

Under this condition the old wastewater plant no longer qualifies for this type of accounting treatment. Therefore, we have retired the old wastewater treatment plant by reducing wastewater Acct. No. 380 and its corresponding accumulated depreciation account by the \$46,765 balance determined in the order.

We are making the retirement as of March 31, 2010, and we have reduced test year depreciation expense by \$3,118 as well. ($\$46,765 \times 6.667\%$)

Effect on the General Ledger: The Utility's wastewater UPIS and accumulated depreciation balances for Acct. No. 380 should be reduced by \$46,765 each, respectively.

Finding 4: Accumulated Depreciation

Audit Analysis: The Utility's general ledger reflects a balance of \$552,568 and \$804,983 for water and wastewater accumulated depreciation, respectively, 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 that were established in Order No. PSC- 03-0740-PAA-WS, as of December 31, 2002, and the Utility's adjustments for the order.
- 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 in Rule 25-30.140, F.A.C. No adjustments are needed.

In Finding 1, we reduced the water UPIS balance by \$47,469. The cumulative effect of this adjustment reduces the water accumulated depreciation account balance by \$15,126, as of March 31, 2011.

In Finding 2, we reduced the wastewater UPIS balance by \$280,150. The cumulative effect of this adjustment reduces the wastewater accumulated depreciation account balance by \$136,016, as of March 31, 2011 (Invoice adjustments of \$63,165 and retirements of \$60,433).

The accumulated depreciation retirement for Acct. No. 371 is limited to \$4,816. This prevents a debit balance for accumulated depreciation at test year end for this account. The remaining \$12,418 retirement difference creates an unrecovered asset that may be considered by the analyst per NARUC USOA, Accounting Instruction 5. E.

See Schedules A and B that follow for our calculations.

Additionally, our adjustment reduces the Utility's test year water and wastewater depreciation expenses by \$2,107 and \$11,381, respectively, for this proceeding.

Effect on the General Ledger: The Utility's water and wastewater accumulated depreciation balances should be reduced by \$15,126 and \$280,150, respectively, for the 12-month period ending March 31, 2011.

Schedule A for Finding 4

Water Plant		Ref#	Acct	Vendor	Utility Amount	NS	UPIS Adjust	Acct	Rule Rate	Accumulated Depreciation & Dep. Expense Adjustment										
Ln	Date									Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Mar-10	Mar-11	Total	
1	12/31/03		304	AS Construction	\$4,125	NS	(\$4,125)	304	3.57%	(\$12)	(\$147)	(\$147)	(\$147)	(\$147)	(\$147)	(\$147)	(\$147)	(\$37)	(\$147)	(\$1,080)
12	12/31/03		304	Landmark Fence	4,290	NS	(4,290)	304	3.57%	(13)	(153)	(153)	(153)	(153)	(153)	(153)	(153)	(38)	(153)	(1,124)
13	12/31/03		304	McDonald Group	<u>10,268</u>	NS	<u>(10,268)</u>	304	3.57%	<u>(31)</u>	<u>(367)</u>	<u>(367)</u>	<u>(367)</u>	<u>(367)</u>	<u>(367)</u>	<u>(367)</u>	<u>(367)</u>	<u>(92)</u>	<u>(367)</u>	<u>(2,689)</u>
					\$18,683		(\$18,683)			(\$56)	(\$667)	(\$667)	(\$667)	(\$667)	(\$667)	(\$667)	(\$667)	(\$167)	(\$667)	(\$4,893)
16	12/31/03		331	Tropical Plumbing	\$5,826	NS	(\$5,826)	331	5.00%	(\$24)	(\$291)	(\$291)	(\$291)	(\$291)	(\$291)	(\$291)	(\$291)	(\$73)	(\$291)	(\$2,136)
3	12/31/03		334	AS Construction	\$16,530	NS	(\$16,530)	334	5.00%	(\$69)	(\$827)	(\$827)	(\$827)	(\$827)	(\$827)	(\$827)	(\$827)	(\$207)	(\$827)	(\$6,061)
18	12/31/04		334	Hughs Supply	1,297	NS	(1,297)	334	5.00%		(5)	(65)	(65)	(65)	(65)	(65)	(65)	(16)	(65)	(411)
19	12/31/04		334	Hughs Supply	<u>5,133</u>	NS	<u>(5,133)</u>	334	5.00%		<u>(21)</u>	<u>(257)</u>	<u>(257)</u>	<u>(257)</u>	<u>(257)</u>	<u>(257)</u>	<u>(257)</u>	<u>(64)</u>	<u>(257)</u>	<u>(1,625)</u>
					\$22,960		(\$22,960)			(\$69)	(\$853)	(\$1,148)	(\$1,148)	(\$1,148)	(\$1,148)	(\$1,148)	(\$1,148)	(\$287)	(\$1,148)	(\$8,097)
Water UPIS & Acc/Dep Adjustment					<u>\$47,469</u>		<u>(\$47,469)</u>			<u>(\$149)</u>	<u>(\$1,812)</u>	<u>(\$2,107)</u>	<u>(\$2,107)</u>	<u>(\$2,107)</u>	<u>(\$2,107)</u>	<u>(\$2,107)</u>	<u>(\$2,107)</u>	<u>(\$527)</u>	<u>(\$2,107)</u>	<u>(\$15,126)</u>

Legend:

NS No supporting documents provided

The utility calculated depreciation accruals based on the month the asset was placed in service which we have duplicated in this schedule.

Schedule B for Finding 4

Wastewater Plant					Utility Amount	UPIS Adjust.	Acct	Rule Rate	Accumulated Depreciation & Dep. Expense Adjustment										
LN	Date	Ref#	Acct	Vendor					Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Mar-10	Mar-11	Total	
4	12/31/03		354	AS Construction	\$22,060	NS	(\$22,060)	354	3.70%	(\$68)	(\$817)	(\$817)	(\$817)	(\$817)	(\$817)	(\$817)	(\$204)	(\$817)	(\$5,992)
14	12/31/03		354	McDonald Group	12,749	NS	(12,749)	354	3.70%	(39)	(472)	(472)	(472)	(472)	(472)	(472)	(118)	(472)	(3,463)
30	08/31/05	83105	354	Wastewater Plant	<u>148,592</u>	NS	<u>(148,592)</u>	354	3.70%			<u>(2,293)</u>	<u>(5,503)</u>	<u>(5,503)</u>	<u>(5,503)</u>	<u>(5,503)</u>	<u>(1,376)</u>	<u>(5,503)</u>	<u>(31,186)</u>
					\$183,401		(\$183,401)			(\$107)	(\$1,289)	(\$3,582)	(\$6,793)	(\$6,793)	(\$6,793)	(\$6,793)	(\$1,698)	(\$6,793)	(\$40,640)
8	12/31/03		370	Central Electric	\$2,830	R	(\$2,123)	370	4.00%	(\$7)	(\$85)	(\$85)	(\$85)	(\$85)	(\$85)	(\$85)	(\$21)	(\$85)	(\$623)
15	12/31/03		370	Peace River Electric	2,659	NS	(2,659)	370	3.33%	(7)	(89)	(89)	(89)	(89)	(89)	(89)	(22)	(89)	(650)
33	11/30/05	504197	370	Harrison Wastewater	37,785	R	(28,339)	370	4.00%			(189)	(1,134)	(1,134)	(1,134)	(1,134)	(283)	(1,134)	(6,140)
34	12/16/05	37780	370	Central Electric	3,706	NS	(3,706)	370	4.00%			(12)	(148)	(148)	(148)	(148)	(37)	(148)	(791)
63	12/31/10	790	370	Red Fox Trucking	<u>33,540</u>	R	<u>(25,155)</u>	370	4.00%								<u>(252)</u>	<u>(1,006)</u>	<u>(1,258)</u>
					\$80,521		(\$61,982)			(\$14)	(\$174)	(\$375)	(\$1,455)	(\$1,455)	(\$1,455)	(\$1,455)	(\$615)	(\$2,462)	(\$9,461)
21	03/04/05	36317	371	Central Electric	\$2,456	R	(\$1,842)	371	5.56%			(\$85)	(\$102)	(\$102)	(\$102)	(\$102)	(\$26)	(\$102)	(\$622)
24	05/26/05	36795	371	Central Electric	2,242	R	(1,681)	371	5.56%			(62)	(93)	(93)	(93)	(93)	(23)	(93)	(553)
32	09/21/05	37270	371	Central Electric	4,815	R	(3,611)	371	5.56%			(67)	(201)	(201)	(201)	(201)	(50)	(201)	(1,120)
37	02/17/06	38101	371	Central Electric	1,518	R	(1,139)	371	5.56%			(58)	(63)	(63)	(63)	(63)	(16)	(63)	(327)
38	04/08/06	38485	371	Central Electric	1,518	R	(1,139)	371	5.56%			(47)	(63)	(63)	(63)	(63)	(16)	(63)	(316)
46	03/07/07	3980	371	Central Electric	<u>10,431</u>	R	<u>(7,823)</u>	371	5.56%					<u>(362)</u>	<u>(435)</u>	<u>(435)</u>	<u>(109)</u>	<u>(435)</u>	<u>(1,775)</u>
					\$22,980		(\$17,235)					(\$214)	(\$502)	(\$885)	(\$957)	(\$957)	(\$239)	(\$957)	(\$4,713)
9	12/31/03		380	Central Electric	\$9,558	NS	(\$9,558)	380	6.67%	(\$53)	(\$637)	(\$637)	(\$637)	(\$637)	(\$637)	(\$637)	(\$159)	(\$637)	(\$4,673)
10	12/31/03		380	Central Electric	<u>7,975</u>	NS	<u>(7,975)</u>	380	6.67%	<u>(44)</u>	<u>(532)</u>	<u>(310)</u>	<u>(532)</u>	<u>(532)</u>	<u>(532)</u>	<u>(532)</u>	<u>(133)</u>	<u>(532)</u>	<u>(3,677)</u>
					\$17,533		(\$17,533)			(\$97)	(\$1,169)	(\$947)	(\$1,169)	(\$1,169)	(\$1,169)	(\$1,169)	(\$292)	(\$1,169)	(\$8,350)
Wastewater UPIS & Acc/Dep Adjustment					<u>\$304,434</u>		<u>(\$280,150)</u>			<u>(\$219)</u>	<u>(\$2,632)</u>	<u>(\$5,119)</u>	<u>(\$9,919)</u>	<u>(\$10,302)</u>	<u>(\$10,374)</u>	<u>(\$10,374)</u>	<u>(\$2,845)</u>	<u>(\$11,381)</u>	<u>(\$63,165)</u>
Sum of R =							(\$72,851)												
Adjusted R =							(60,433)												
Difference =							(\$12,418)												

Legend:

NS No supporting documents provided

R Should have included retirement amount

The utility calculated depreciation accruals based on the month the asset was placed in service which we have duplicated in this schedule.

Finding 5: 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
211000	Additional Paid in Capital	(869,894)	(869,894)
218000	Members Equity	(398,062)	(398,062)
218002	Retained Earnings	543,394	543,394
224000	Note Payable-Related Parties	(244,724)	(244,724)
		(\$969,286)	(\$969,286)

River Ranch Water Management, L.L.C. is a subsidiary of CFI and 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	\$216,691,684

The Utility's capital structure in its 2010 annual report reflects an equity balance of \$724,098 and a long term debt balance of \$244,724.

The long term debt balance has existed unchanged since 2004 and is an obligation to CFI, a related party. Under this scenario, the Commission has treated such amounts as contributed capital in prior rate cases and included them as equity for capital structure presentation purposes such as, Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145-WU.

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, issued July 5, 2011.

Effect on the General Ledger: None

Finding 6: Operations and Maintenance Expense

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

Water	\$97,317
Wastewater	\$99,132

The Utility's water and wastewater O&M expense balances should be increased by \$2,471 and decreased by \$3,670, respectively, based on the following audit adjustments.

1. We have increased Acct. Nos. 601/701-Salaries by \$304 each, based on the following adjustments.
 - a. We increased water and wastewater expenses by \$1,330 each, to correct and record the actual gross salary paid to the Utility's one employee in the 12-month test year.
 - b. We reduced water and wastewater expenses by \$1,026, each, to remove compensating salary allocations for nonutility employees. *Compensating salaries were described as nonproductive salaries such as vacation and sick leave paid to CFI's employees. The compensating salary allocations are for nonutility employees who, on occasion, performed specific jobs for the Utility. The nonutility employee's direct salary was properly calculated and charged to the Utility when incurred. The compensating salary allocations were an additional salary charge. We have removed these allocations because we do not believe that the Utility should be responsible for nonproductive salaries of nonutility employees.*
2. We have reduced Acct. Nos. 604/704 Pension and Benefits by \$11 each, to correct and record the actual benefit expenses paid for the one employee identified in Item 1.
3. We have increased and reduced Acct. Nos. 615/715-Purchased Power by \$712 and \$861, respectively, to record the actual electric bills for the 12-month test year.
4. We have reduced and increased Acct. Nos. 618/718-Chemicals by \$1,258 and \$1,707, respectively, based on the following adjustments.
 - a. We increased water and wastewater expenses by removing a March reversing entry totaling \$2,581 (\$1,290 for water and \$1,291 for wastewater) to negate its effect on the 12-month test year.
 - b. We reduced water expense by \$1,405 for a transaction that was not supported by utility documentation.
 - c. We made offsetting adjustments that reduced the water and increased the wastewater expense by \$390 for an invoice that the Utility split equally between each system that was related to the wastewater system only.
 - d. We removed invoices totaling \$367 (\$183 for water and \$184 for wastewater) that we reclassified to Acct. No. 635 for \$77 and Acct. No. 720 for \$290, below.
 - e. We adjusted an invoice totaling \$1,141 (\$571 for water and \$570 for wastewater) by making offsetting adjustments that reduced the water and increased the wastewater expense by \$390 that the Utility split equally between each system that was related to the

wastewater system only and by removing \$361 that we reclassified to Acct. No. 635 for \$39, Acct. No. 720 for \$202, and Acct. No. 735 for \$120, below.

5. We have increased Acct. Nos. 620/720-Material & Supplies by \$103 and \$595, respectively, based on the following adjustments.
 - a. We increased water and wastewater expenses by removing an April reversing entry totaling \$262 (\$131 for water and \$131 for wastewater) to negate its effect on the 12-month test year.
 - b. We reduced water and wastewater expenses by removing an April accrual entry totaling \$56 (\$28 for water and \$28 for wastewater) to negate its effect on the 12-month test year.
 - c. We increased wastewater expense by \$492 for amounts that we reclassified in Item 4(d) and 4(e) above.
6. We have increased and reduced Acct. Nos. 635/735 Contract Services Testing by \$628 and \$393, respectively, based on the following adjustments.
 - a. We made offsetting adjustments that increased the water and reduced the wastewater expenses by \$513 for nine (9) invoices for water testing that the Utility split equally between the water and wastewater systems.
 - b. We increased water and wastewater expenses by \$116 and \$120 for amounts that we reclassified in Item 4(d) and 4(e) above.
7. We have increased and reduced Acct. Nos. 636/736 Contract Services Other by \$1,647 and \$3,153, respectively, based on the following adjustments.
 - a. We increased water and wastewater expenses by removing two (2) April reversing entries totaling \$695 (\$347 for water and \$348 for wastewater) to negate its effect on the 12-month test year.
 - b. We reduced water and wastewater expenses by removing two (2) accrual entries in August and September that totaled \$7,000 (\$3,500 each for water and wastewater) to negate their effect on the 12-month test year.
 - c. We increased water expense by \$4,800 to include two (2) invoices to inspect the Utility's water storage tanks that we reclassified from Grenelefe Resort Utility, Inc., a sister system owned by CFI.
8. We have increased and reduced Acct. Nos. 642/742 Rental Equipment by \$1,713 and \$1,315, respectively, based on the following adjustments.
 - a. We increased water and wastewater expenses by \$398 (\$281 for water and \$117 for wastewater) to annualize the current lease for the pickup truck used by the Utility's operator.
 - b. We made offsetting adjustments that increased the water and reduced the wastewater expenses by \$1,431 for three (3) invoices for rented equipment used to repair and maintain the Utility's water system that the Utility split equally between the water and wastewater systems.
9. We have reduced Acct. Nos. 650/750-Transportation Expense by \$982 (\$491 each for water/wastewater) to remove three (3) invoices for the truck lease that was discussed and accounted for in Item 8 above.

10. We have increased Acct. Nos. 656/756 Insurance-Vehicle by \$92 (\$46 each for water/wastewater) to adjust and annualize the Utility's automobile insurance expense based on the current insurance policy in effect beginning January 2011.
11. We have reduced and increased Acct. Nos. 675/775 Miscellaneous Expense by \$918 and \$22, 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 for \$940 for a consent order settlement with the Polk County Health Department for fines and administrative costs related to four (4) violations noted at the Utility's water system in May 2010.

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

Additionally, the Utility's working capital adjustments for water and wastewater rate base inclusion is \$12,473 and \$11,948, respectively. These balances represent one-eighth of the water and wastewater O&M expense balances of \$99,788 and \$95,582, respectively that we compiled for this proceeding.

Effect on the General Ledger: None

Schedule C for Finding 6

Water Operations & Maintenance Expense

Acct No.	Description	Balance for the 12-Month Period Ending March 31, 2011		
		Per Utility	Audit Adjustment	Per Audit
601	Salary Expense	\$29,684	\$304	\$29,988
604	Pension & Benefits	25	(11)	14
615	Purchased Power	11,432	712	12,144
618	Chemicals	16,778	(1,258)	15,520
620	Materials & Supplies	2,551	103	2,654
632	CS - Accounting	4,417	0	4,417
635	CS - Testing	1,501	628	2,129
636	CS - Other	21,834	1,647	23,481
642	Rent	3,117	1,713	4,830
650	Transportation	2,696	(492)	2,204
656	Insurance	544	46	590
675	Misc. Expense	<u>2,738</u>	<u>(918)</u>	<u>1,820</u>
		\$97,317	\$2,474	\$99,791
	Working Capital (1/8th of O&M Expense)			\$12,474

Schedule D for Finding 6

Wastewater Operations & Maintenance Expense

Acct No.	Description	Balance for the 12-Month Period Ending March 31, 2011		
		Per Utility	Audit Adjustment	Per Audit
701	Salary Expense	\$29,684	\$304	\$29,988
704	Pension & Benefits	25	(11)	14
711	Sludge Hauling	731	0	731
715	Purchased Power	18,405	(861)	17,544
718	Chemicals	9,871	1,707	11,578
720	Materials & Supplies	1,855	595	2,450
732	CS - Accounting	4,417	0	4,417
735	CS - Testing	513	(393)	120
736	CS - Other	26,488	(3,153)	23,335
742	Rent	3,281	(1,315)	1,965
750	Transportation	2,696	(491)	2,205
756	Insurance	544	46	590
775	Misc. Expense	<u>623</u>	<u>22</u>	<u>645</u>
		\$99,132	(\$3,550)	\$95,582
	Working Capital (1/8th of O&M Expense)			\$11,948

Finding 7: Taxes Other Than Income

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

	Water	Wastewater
Regulatory Assessment Fees	\$6,035	\$7,390
Property Taxes	261	103
Payroll Taxes	<u>2,438</u>	<u>2,443</u>
	\$8,734	\$9,936

The Utility's water and wastewater TOTI expense balances should be reduced by \$609 and \$574, respectively, based on the following audit adjustments.

1. We have increased water property taxes by \$79 to \$340 which is the discounted actual amount on the property tax bills as listed below.
 - a. We included a real estate tax of \$122 which is the discounted amount payable on the actual tax bill of \$127 for the water plant site.
 - b. We included a tangible tax of \$219 for water which is one-half of the total discounted amount that was payable on the actual tax bill of \$437 for the tangible tax assessed on the Utility's water and wastewater plant equipment.
2. We have increased wastewater property taxes by \$116 to \$219 which is the discounted actual amount on the individual property tax bills as listed below.
 - a. There was no real estate tax assessed on the Utility's wastewater plant site.
 - b. We included a tangible tax of \$219 for wastewater which is one-half of the total discounted amount that was payable on the actual tax bill of \$437 for the tangible tax assessed on the Utility's water and wastewater plant equipment.
3. We have reduced payroll taxes by \$1,379 (\$690 each for water/wastewater) based on the actual payroll expenses that we determined in Item 1 of Finding 6.

See Schedule E that follows for our calculations and details.

Effect on the General Ledger: None

Schedule E for Finding 7

Taxes Other Than Income

Date	Vendor	Total	Water	W/Water	Description
03/31/11	RAFs	\$13,425	\$6,035	\$7,390	Sum of accruals for RAF's
03/31/11	Property Tax	364	261	103	Sum of accruals for Real Estate Tax
03/31/11	Payroll Tax	<u>4,881</u>	<u>2,438</u>	<u>2,443</u>	Sum of accruals for Payroll Tax
TOTI	Per Utility	\$18,670	\$8,734	\$9,936	
	See audit adjustments displayed below.	(1,379)	(690)	(690)	Adjust Payroll Tax accrual to actual
		<u>196</u>	<u>79</u>	<u>116</u>	Adjust Property Tax accrual to actual
TOTI	Per Audit	\$17,486	\$8,124	\$9,362	

Payroll Tax Adjustment		Total	Water	W/Water
	Direct Payroll Tax	\$2,723	\$1,362	\$1,362
	CFO Allocated Payroll Tax	<u>778</u>	<u>386</u>	<u>392</u>
Per Audit		\$3,502	\$1,748	\$1,754
	Direct Payroll Tax	\$4,103	\$2,051	\$2,051
	CFO Allocated Payroll Tax	<u>778</u>	<u>386</u>	<u>392</u>
Per Utility		\$4,881	\$2,438	\$2,443
	Audit Adjustment:	<u>(\$1,379)</u>	<u>(\$690)</u>	<u>(\$690)</u>

Real Estate Tax Adjustment		Total	Water	W/Water
	Real Estate Tax Water	\$122	\$122	\$0
	Real Estate Tax W/Water	0	0	0
	Tangible Tax	<u>437</u>	<u>219</u>	<u>219</u>
Per Audit		\$559	\$340	\$219
Per Utility	Property Tax Accruals	\$364	\$261	\$103
	Audit Adjustment:	<u>\$196</u>	<u>\$79</u>	<u>\$116</u>

(Amounts are rounded to the nearest whole dollar)

Exhibits

Exhibit 1: Water Rate Base

**RIVER RANCH WATER MANAGEMENT, L.L.C.
AS OF MARCH 31, 2011
DOCKET NO. 110140-WS**

DESCRIPTION	PER UTILITY	AUDIT ADJUSTMENTS	PER AUDIT
UTILITY PLANT IN SERVICE	\$833,579	(\$47,469)	\$786,110
LAND AND LAND RIGHTS	\$160	\$0	\$160
CONTRIBUTIONS IN AID OF CONSTRUCTION	(\$522,724)	\$0	(\$522,724)
ACCUMULATED AMORTIZATION OF CIAC	\$399,677	\$0	\$399,677
ACCUMULATED DEPRECIATION	(\$552,568)	\$15,127	(\$537,441)
DEFERRED DEBITS (a)	\$2,678	\$0	\$2,678
WORKING CAPITAL (b)	\$0	\$12,474	\$12,474
NET RATE BASE (c)	\$160,802	(\$19,868)	\$140,934

Notes to above schedule:

- a) Net of Accumulated Amortization
- 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

RIVER RANCH WATER MANAGEMENT, L.L.C.
AS OF MARCH 31, 2011
DOCKET NO. 110140-WS

DESCRIPTION	PER UTILITY	AUDIT ADJUSTMENTS	PER AUDIT
UTILITY PLANT IN SERVICE	\$1,761,743	(\$326,625)	\$1,435,118
LAND AND LAND RIGHTS	\$500	\$0	\$500
CONTRIBUTIONS IN AID OF CONSTRUCTION	(\$661,614)	\$0	(\$661,614)
ACCUMULATED AMORTIZATION OF CIAC	\$432,816	\$0	\$432,816
ACCUMULATED DEPRECIATION	(\$804,983)	\$170,362	(\$634,621)
DEFERRED DEBITS (a)	\$0	\$0	\$0
WORKING CAPITAL (b)	\$0	\$11,948	\$11,948
	-----	-----	-----
NET RATE BASE (c)	\$728,462	(\$144,315)	\$584,147

Notes to above schedule:

- a) Net of Accumulated Amortization
- 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 3: Water Net Operating Income

**RIVER RANCH WATER MANAGEMENT
12-MONTH PERIOD ENDED MARCH 31, 2011
DOCKET NO. 110140-WS**

DESCRIPTION	PER UTILITY	AUDIT ADJUSTMENTS	PER AUDIT
REVENUES	\$134,101	\$0	\$134,101
OPERATION AND MAINTENANCE EXPENSE	\$97,317	\$2,474	\$99,791
DEPRECIATION EXPENSE	\$26,471	(\$2,107)	\$24,364
CIAC AMORTIZATION EXPENSE	(\$11,435)	\$0	(\$11,435)
DEFERRED AMORTIZATION EXPENSE	\$1,013	\$0	\$1,013
TAXES OTHER THAN INCOME TAX EXPENSE	\$8,734	(\$610)	\$8,124
PROVISION FOR INCOME TAX EXPENSE (a)	\$0	\$0	\$0
	-----	-----	-----
OPERATING EXPENSE	\$122,099	(\$243)	\$121,856
	-----	-----	-----
NET OPERATING INCOME (b)	\$12,002	\$243	\$12,244

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

**RIVER RANCH WATER MANAGEMENT
12-MONTH PERIOD ENDED MARCH 31, 2011
DOCKET NO. 110140-WS**

DESCRIPTION	PER UTILITY	AUDIT ADJUSTMENTS	PER AUDIT
REVENUES	\$164,224	\$0	\$164,224
OPERATION AND MAINTENANCE EXPENSE	\$99,132	(\$3,550)	\$95,582
DEPRECIATION EXPENSE	\$78,080	(\$14,498)	\$63,582
CIAC AMORTIZATION EXPENSE	(\$15,256)	\$0	(\$15,256)
DEFERRED AMORTIZATION EXPENSE	\$540	\$0	\$540
TAXES OTHER THAN INCOME TAX EXPENSE	\$9,930	(\$573)	\$9,357
PROVISION FOR INCOME TAX EXPENSE (a)	\$0	\$0	\$0
	-----	-----	-----
OPERATING EXPENSE	\$172,426	(\$18,622)	\$153,805
	-----	-----	-----
NET OPERATING INCOME (b)	(\$8,202)	\$18,622	\$10,420

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

**RIVER RANCH WATER MANAGEMENT, L.L.C.
AS OF MARCH 31, 2011
DOCKET NO. 110140-WS**

CLASS OF CAPITAL	BALANCE	ADJUSTMENTS	ADJUSTED BALANCE	RATIO	COST RATE (b)	WEIGHTED COST
LONG TERM DEBT	\$244,724	(\$244,724)	\$0	0.00%	0.00%	0.00%
COMMON EQUITY (a)	\$724,098	\$983	\$725,081	100.00%	8.74%	8.74%
CUSTOMER DEPOSITS	0	0	0	0.00%	6.00%	0.00%
	-----	-----	-----	-----		-----
TOTALS(c)	\$968,822	(\$243,741)	\$725,081	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. (\$140,934 + \$584,147)
- 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.