

State of Florida



Public Service Commission

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COMMISSION CLERK

DATE: January 7, 2013
TO: Office of Commission Clerk
FROM: Lynn Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 120172-WS
 Company Name: Country Club Utilities
 Company Code: WS654
 Audit Purpose: A1b Staff Assisted Rate Case
 Audit Control No: 12-208-2-1

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.

LD/th

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

00106 JAN-7 13

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

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

Auditor's Report

Country Club Utilities, Inc.
Staff Assisted Rate Case

Twelve Months Ended June 30, 2012

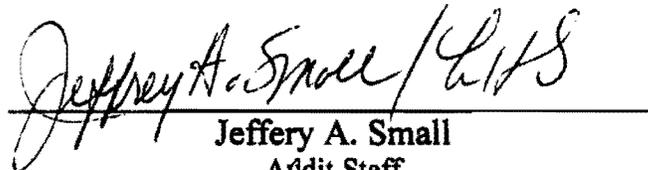
Docket No. 120172-WS
Audit Control No. 12-208-2-1
January 3, 2013



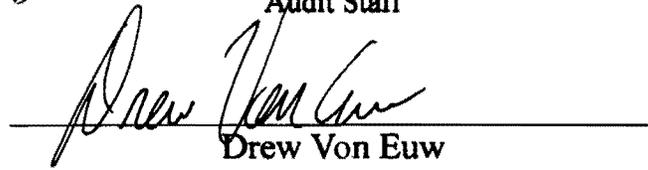
Linda Hill-Slaughter
Audit Manager



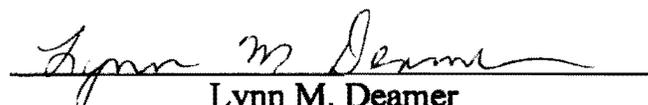
Jocelyn Y. Stephens
Audit Staff



Jeffery A. Small
Audit Staff



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Lynn M. Deamer
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated July 23, 2012. We have applied these procedures to the attached schedules prepared by audit staff in support of Country Club Utilities, Inc.'s request for a Staff Assisted Rate Case in Docket No. 120172-WS.

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

Objectives and Procedures

General

Definition

Utility refers to Country Club Utilities, Inc.

Utility Information

Country Club Utilities, Inc. is a Class “C” Utility providing service to approximately 390 water and 389 wastewater customers in Highlands County. The prior owner, Country Club of Sebring, purchased the development and the water and wastewater systems in a foreclosure proceeding in 1989. The Utility was granted original Certificate Nos. 540-W and 468-S under the name Country Club of Sebring and initial rates and charges were established in Order No. 25788, issued February 24, 1992, in Docket No. 910792-WS. In 2007, a name change to Country Club Utilities, Inc. and transfer of majority organizational control were approved in Order No. PSC-07-0121-FOF-WS, issued February 12, 2007, in Docket No. 060352-WS. Rate base has not been previously established by the Commission.

Utility Books and Records

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

Procedures: We reviewed the Utility’s books and records and determined that they are not in compliance with the NARUC USOA. See our discussion of this issue in Finding 1.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether Utility Plant in Service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are authentic, recorded at original cost, and properly classified as a capital item in compliance with Commission rules and the NARUC USOA, and 3) Retirements are made when a replacement item is put in service.

Procedures: We toured the Utility's water and wastewater plant sites to determine the presence and condition of plant assets. We searched utility records for documentation to support additions to UPIS and compiled documented plant costs for the period January 1, 1990, through June 30, 2012. We obtained permits and Certificate of Completion documents for water and wastewater plant projects from the Florida Department of Environmental Protection (FDEP). We reviewed available vendor invoices to determine whether costs for plant additions or improvements were incurred but not recorded as UPIS. We compared audit staff calculated UPIS to the amount recorded by the Utility in its general ledger as of June 30, 2012. We scheduled documented UPIS year-end and average account balances as of June 30, 2012. We requested plans for future improvements to UPIS to be included in staff's pro forma review. Our recommended adjustments to Water and Wastewater UPIS are discussed in Findings 2 and 3.

Land & Land Rights

Objective: The objective was to determine whether utility land is either recorded at original cost or is secured under a long-term lease agreement.

Procedures: We obtained and reviewed documentation from the Highlands County Clerk's Office. We determined that the water and wastewater treatment plants are on land owned by the Utility. We determined the original cost of the land for utility operations when first dedicated to public service. Our recommended adjustments to Water and Wastewater Land and Land Rights are discussed in Finding 4.

Accumulated Depreciation

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

Procedures: Using the UPIS balances determined by audit staff, we calculated the annual accruals to Accumulated Depreciation as of June 30, 2012, using the depreciation rates established by Rule 25-30.140(2), Florida Administrative Code (F.A.C.). We prepared a schedule of Accumulated Depreciation with year to year net additions. We compared test year Accumulated Depreciation balances in the general ledger to audit staff's recalculated balances. We recorded retirements when applicable following Commission rules. Our recommended adjustment to Accumulated Depreciation is discussed in Finding 5.

Contributions-in-Aid-of-Construction

Objective: The objective was to verify that Contributions-in-Aid-of-Construction (CIAC) is in compliance with the Utility's Commission approved service availability charges.

Procedures: We compared the Utility's Commission approved service availability charges, which were approved in Order No. 25788, issued February 24, 1992, in Docket No. 910792-WS, with the Utility's general ledger, annual reports, and Federal Income Tax Returns. Using the Utility's annual reports, we determined new customer connections from January 1, 1992, through June 30, 2012. We determined that developer agreements were not available. We calculated CIAC for water and wastewater based on the Utility's approved service availability charges and the number of connections as of June 30, 2012. Our recommended adjustment to CIAC is discussed in Finding 6.

Accumulated Amortization of CIAC

Objectives: The objectives were to verify that Accumulated Amortization of CIAC accruals are properly calculated and recorded in compliance with Commission rules and the NARUC USOA.

Procedures: Using the CIAC balances determined by audit staff, we calculated the annual accruals to Accumulated Amortization of CIAC as of June 30, 2012. Our recommended adjustment to Accumulated Amortization of CIAC is discussed in Finding 7.

Working Capital

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

Procedure: We calculated the Utility's working capital allowance as of June 30, 2012, using one-eighth of the staff calculated O&M Expense as required by Rule 25-30.433(2), F.A.C. Our recommended working capital allowance is discussed in Finding 11.

Capital Structure

Objective: The objective was to determine the Utility's capital structure and cost rates needed to arrive at an overall weighted cost of capital.

Procedures: We obtained copies of all debt which impacted the Utility during the test year. We traced payments to the Utility's books for each debt instrument. We determined if customer deposits are authorized by the Commission and whether the Utility is paying or crediting interest on those deposits. We prepared a cost of capital summary schedule and computed a weighted cost of capital as of June 30, 2012. Our recommended capital structure is discussed in Finding 8.

Net Operating Income

Operating Revenue

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

Procedures: We compiled the Utility's revenues for the test year ended June 30, 2012, by obtaining the monthly customer billing records. We determined that the Utility received a price index adjustment effective November 5, 2011, pursuant to the 2011 Price Index that was approved in Order No. PSC-11-0115-PAA-WS, issued February 14, 2011, in Docket No. 110005-WS. We, therefore, annualized revenues for the test period. We also tested whether the Utility is using the approved rates for billing. Our recommended adjustment for test year Revenues is discussed in Finding 9.

We recalculated the Utility's 2011 calendar year revenues using billing information and traced the revenues to the Regulatory Assessment Fee (RAF) Return filed with this Commission for 2011. We determined that the Utility under paid RAFs for 2011 by \$298. Our finding regarding 2011 RAFs is in Finding 10.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether O&M Expense is properly recorded in compliance with the NARUC USOA and Commission Rules, and that O&M Expense is representative of ongoing utility operations.

Procedures: We scheduled O&M Expense for the test year from the Utility's general ledgers and traced the expense to original source documents where available. Our recommended adjustments to O&M Expense are discussed in Finding 11.

We requested information related to unrecorded costs associated with Utility management and customer billing and collections. Our recommendation related to pro forma expenses is discussed in Finding 12.

Depreciation Expense

Objective: Our objective was to determine whether Depreciation Expense is properly recorded in compliance with Commission rules.

Procedure: We calculated Depreciation Expense for the test year ended June 30, 2012, using the rates established by Rule 25-30.140, F.A.C. Our recommended adjustment to Depreciation Expense is discussed in Finding 5.

Amortization Expense

Objective: Our objective was to determine whether Amortization Expense is properly recorded in compliance with Commission rules.

Procedure: We calculated Amortization Expense for the test year ended June 30, 2012, using the rates established by Rule 25-30.140, F.A.C. Our recommended adjustment to Amortization Expense is discussed in Finding 7.

Taxes Other than Income

Objectives: The objectives were to determine whether the Taxes Other Than Income (TOTI) Expense is properly recorded and in compliance with Commission rules, and whether TOTI Expense is representative of ongoing utility operations.

Procedures: We compiled TOTI Expense for the test year ended June 30, 2012, by calculating the RAF due based on the test year Revenue determined in this rate proceeding. We calculated an appropriate amount for real estate taxes based on discounts lost. We reviewed and recalculated the Utility's 2011 RAF Return. Our recommended adjustments to TOTI are discussed in Findings 10 and 13.

Audit Findings

Finding 1: Utility Books and Records

Audit Analysis: Rate base has never been set for Country Club Utilities, Inc.; therefore, audit staff requested all available documentation for the period January 1990 through June 2012. The Utility provided a general ledger showing balance sheet entries for 2005 through 2012 and income statement entries for January 2012 through June 2012. In addition, the Utility provided Federal Income Tax Returns for 2004 through 2011, a billing register for January 1, 2011 through June 30, 2012, a check register and cancelled checks for portions of 2001, O&M Expense detail for 2011, and vendor invoices for 2000 and 2009 through 2012. No other information was provided to support the Utility's books and records. The Utility's year-end adjustments and Annual Report were prepared by an outside accountant.

The Utility's books and records were not maintained in accordance with NARUC USOA procedures. The Utility did not use the USOA account numbering system in its general ledger and record retention was not in compliance with Rule 25-30.110, F.A.C. The Utility's failure to maintain adequate supporting documentation for its books and records resulted in a significant scope limitation of the audit.

Effect on the General Ledger: None.

Effect on Staff Prepared Exhibits: Not applicable.

Finding 2: Utility Plant in Service

Audit Analysis: The Utility's general ledger, 2011 Federal Income Tax Return, and 2011 Annual Report reflected UPIS of \$1,501,763 and \$645,455 for water and wastewater, respectively. According to the Utility's general ledger, journal entries were posted in 2005 recording \$1,444,855 and \$631,624 for water and wastewater UPIS, respectively, to allocate the purchase price. The Commission, however, has never set rate base or approved an allocation of a purchase price for the Utility. Using the financial records provided by the Utility, audit staff documented plant additions net of retirements, totaling \$120,171 and \$21,228, for water and wastewater, respectively, as of June 30, 2012.

The Utility did not have supporting documentation for the cost of the original well that was constructed in 1984. The Utility had supporting documentation for the second well which was constructed in 2000; however, the well collapsed in 2001 and was taken out of service. Audit staff retired the well at cost. The Utility provided supporting documentation associated with a portion of the cost of a third well that was constructed in 2012. The balance of the cost of the third well was incurred after the test period and is described in Finding 3 regarding pro forma plant additions. In addition, the Utility provided documentation for costs associated with refurbishing the storage tank, repairing pumps, installing new meters, and upgrading the percolation pond.

The Utility also provided documentation totaling \$5,690 to support the cost of transporting a surge tank to the Utility's wastewater plant site in 2010. The tank, which was donated to the Utility, was part of an Implementation Step ordered by FDEP for the issuance of an operating permit which was issued on October 8, 2008. The surge tank has not been installed and has been reclassified as Construction Work in Process.

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

Tables 2-1 and 2-2 reflect audit staff's year-end and average UPIS balances for water and wastewater, respectively, as of June 30, 2012.

Finding 2 (cont'd)

**Table 2-1
Country Club Utilities, Inc.
UPIS Water
As of June 30, 2012**

<u>NARUC Acct. No.</u>	<u>Account Description</u>	<u>Per Utility</u>	<u>Audit Adjustment</u>	<u>Year-End Balance Per Audit</u>	<u>Average Balance Per Audit</u>
301	Organization	\$17,630	(\$17,630)	\$0	\$0
304	Structures and Improvements	\$327,148	(\$327,148)	\$0	\$0
305	Collecting and Impounding Reservoirs	\$63,300	(\$42,140)	\$21,160	\$21,160
307	Wells and Springs	\$6,000	\$13,280	\$19,280	\$12,935
309	Supply Mains	\$11,000	(\$11,000)	\$0	\$0
310	Power Generation Equipment	\$20,493	(\$20,493)	\$0	\$0
311	Pumping Equipment	\$26,395	(\$9,506)	\$16,889	\$16,889
320	Water Treatment Equipment	\$5,187	\$20,310	\$25,497	\$25,497
331	Transmission and Distributions Lines	\$941,601	(\$941,601)	\$0	\$0
334	Meters and Meter Installations	\$18,115	\$18,339	\$36,454	\$36,454
340	Office Furniture and Equipment - Computer	\$14,639	(\$14,114)	\$525	\$525
340.1	Computer		\$367	\$367	\$367
341	Transportation Equipment	\$8,618	(\$8,618)	\$0	\$0
345	Power Operated Equipment	\$35,000	(\$35,000)	\$0	\$0
348	Miscellaneous Equipment	\$6,637	(\$6,637)	\$0	\$0
	Total	\$1,501,763	(\$1,381,592)	\$120,171	\$113,827
			Averaging Adjustment		(\$6,345)

Table 2-2
Country Club Utilities, Inc.
UPIS Wastewater
As of June 30, 2012

<u>Naruc</u> <u>Acct. No.</u>	<u>Account Description</u>	<u>Per</u> <u>Utility</u>	<u>Audit</u> <u>Adjustment</u>	<u>Year-End</u> <u>Balance</u> <u>Per Audit</u>	<u>Average</u> <u>Balance</u> <u>Per Audit</u>
351	Organization	\$832	(\$832)	\$0	\$0
354	Structures and Improvements	\$332,027	(\$331,173)	\$854	\$427
361	Collecting Sewers - Gravity	\$274,095	(\$274,095)	\$0	\$0
364	Flow Measuring Devices	\$5,269	(\$5,269)	\$0	\$0
371	Pumping Equipment	\$0	\$797	\$797	\$797
380	Treatment and Disposal Equipment	\$8,550	\$10,135	\$18,685	\$18,685
382	Outfall Sewer Lines	\$2,649	(\$2,649)	\$0	\$0
389	Other Plant and Miscellaneous Equipment	\$8,150	(\$8,150)	\$0	\$0
390	Office Furniture and Equipment	\$7,180	(\$6,655)	\$525	\$525
390.1	Office Furniture and Equipment - Computer	\$0	\$367	\$367	\$367
391	Transportation Equipment	\$6,241	(\$6,241)	\$0	\$0
395	Power Operated Equipment	\$0	\$0	\$0	\$0
397	Miscellaneous Equipment	\$0	\$0	\$0	\$0
398	Other Tangible Plant	\$462	(\$462)	\$0	\$0
	Total	\$645,455	(\$624,227)	\$21,228	\$20,801
			Averaging Adjustment		(\$427)

Finding 2 (cont'd)

Effect on the General Ledger: The following entry is needed to correct the general ledger as of June 30, 2012.

	<u>Debit</u>	<u>Credit</u>
Retained Earnings	\$2,005,819	
Plant in Service - Water		\$1,381,592
Plant in Service - Wastewater		\$624,227
To adjust general ledger balances for Plant in Service to the audit balance		

Effect on Staff Prepared Exhibits:

	<u>Debit</u>	<u>Credit</u>
Retained Earnings	\$2,005,819	
Plant in Service - Water		\$1,381,592
Plant in Service - Wastewater		\$624,227
To adjust Rate Base Exhibits for Plant in Service to the audit balance		

Averaging Adjustment

Plant in Service - Water		(\$6,345)
Plant in Service - Wastewater		(\$427)
To adjust Rate Base Exhibits for Averaging Adjustment to UPIS		

Finding 3: Pro Forma Capital Additions

Audit Analysis: The Utility provided audit staff estimates to complete a new well, make improvements to an existing backup well and pumping equipment, repair a fence, upgrade a generator, and make improvements to the wastewater treatment plant. Audit staff reviewed invoices and other supporting documentation for the work completed after the test year, June 30, 2012, through September 30, 2012.

Table 3-1 reflects pro forma water plant additions of \$47,523 paid for subsequent to the test year through September 30, 2012. In addition, Table 3-2 shows approximately \$3,850 of pro forma water plant improvements which had not been paid for as of September 30, 2012.

Table 3-3 shows the estimated pro forma plant for the wastewater system. As of September 30, 2012, the Utility had no written documentation supporting the estimated cost of the wastewater plant additions.

**Table 3-1
Country Club Utilities, Inc.
Pro Forma Water Plant
Costs Incurred and Recorded Between July 1, 2012, and September 30, 2012**

NARUC			
<u>Acct No.</u>	<u>Account Description</u>	<u>Item Description</u>	<u>Actual Costs</u>
307	Wells and Springs	New Well	\$21,441
307	Wells and Springs	Repair Back-Up Well	\$5,787
307	Wells and Springs	Tie into system - Hook-up new well from well	\$4,500
307	Wells and Springs	Bacteriologicals - required by DEP	\$4,600
311	Pumping equipment	Connect pump to piping	\$6,500
311	Pumping equipment	Connect electric to pump	\$1,370
311	Pumping equipment	Pump Slab	\$1,200
311	Pumping equipment	Remove old casing, motor, etc	\$2,125
		Total recorded after test year	<u>\$47,523</u>

Finding 3 (cont'd)

**Table 3-2
Country Club Utilities, Inc.
Pro forma Water Plant
Costs Incurred after September 30, 2012**

NARUC

<u>Acct No.</u>	<u>Account Description</u>	<u>Item Description</u>	<u>Estimates</u>
304	Structures and Improvements	Repair Fencing	\$1,100
307	Wells and Springs	Generator Upgrade	\$1,500
310	Power Generated Equipment	Apron	\$1,250
			\$3,850

**Table 3-3
Country Club Utilities, Inc.
Pro forma Wastewater Plant**

NARUC

<u>Acct. No.</u>	<u>Acct. Description</u>	<u>Item Description</u>	<u>Amount</u>
370	Receiving Wells	Three 7.5 Grinder Pumps	\$15,000
380	Treatment and Disposal Equipment	Connect Surge Tank to system	\$20,000
380	Treatment and Disposal Equipment	Two WWTP Blowers	\$16,000
364	Flow Measuring Device	New Flow Meter	\$3,500
380	Treatment and Disposal Equipment	Sandblast/Paint tank	\$25,000
			\$79,500

Effect on the General Ledger: None.

Effect on Staff Prepared Exhibits: We defer this issue to the analyst.

Finding 4: Land and Land Rights

Audit Analysis: On November 10, 1983, Prairie Oaks Company purchased undeveloped property containing 480 acres from Hart Arrow Corporation. Subsequent to the property being platted, a series of affiliated transactions, and a foreclosure settlement, the portions of the land on which the water and wastewater treatment plants are located were transferred to Country Club of Sebring in 1991 and to Country Club Utilities, Inc. in 2003. According to the Utility's general ledger, journal entries were posted in 2005 recording Land and Land Rights of \$19,418 and \$23,548 for water and wastewater, respectively, to allocate the purchase price according to Commission requirements. As previously discussed, the Commission has never set rate base or approved an allocation of a purchase price for the Utility.

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

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

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

**Table 4-1
Country Club Utilities, Inc.
Land Value**

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

Finding 4 (cont'd)

Effect on the General Ledger: The following entry is needed to correct the general ledger as of June 30, 2012.

NARUC			
<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings	\$27,026	
303	Land - Water		\$18,384
353	Land - Wastewater		\$8,642
To adjust the general ledger balance for Land to the audit balance			

Effect on Staff Prepared Exhibits:

NARUC			
<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
215	Retained Earnings	\$27,026	
303	Land - Water		\$18,384
353	Land - Wastewater		\$8,642
To adjust Rate Base Exhibits for Land to the audit balance			

Finding 5: Accumulated Depreciation

Audit Analysis: The Accumulated Depreciation balances per the Utility's general ledger as of June 30, 2012, are \$881,483 and \$443,046 for water and wastewater, respectively. The average year end Accumulated Depreciation balances calculated by audit staff as of June 30, 2012, are \$44,132 and \$9,217 for water and wastewater, respectively. Tables 5-1 and 5-2 reflect audit staff's year end and average Accumulated Depreciation balances for water and wastewater, respectively, as of June 30, 2012. Audit staff calculated Depreciation Expense for the test period to be (\$966) and \$1,427 for water and wastewater, respectively.

Table 5-1
Country Club Utilities, Inc.
Accumulated Depreciation Water
As of June 30, 2012

NARUC Acct. No.	Water Plant	Per Utility	Staff Adjustment	Balance 6/30/2012	Avg. Bal 6/30/2012
301	Organization	\$14,168	(\$14,168)	\$0	\$0
304	Structures and Improvements	\$182,591	(\$182,591)	\$0	\$0
305	Collecting and Impounding Reservoirs	\$39,827	(\$36,753)	\$3,074	\$2,810
307	Wells and Springs	\$4,822	(\$8,610)	(\$3,788)	(\$673)
309	Supply Mains	\$8,841	(\$8,841)	\$0	\$0
310	Power Generation Equipment	\$20,493	(\$20,493)	\$0	\$0
311	Pumping Equipment	\$21,278	(\$14,897)	\$6,381	\$5,884
320	Water Treatment Equipment	\$4,169	\$12,565	\$16,734	\$15,984
331	Transmission and Distributions Lines	\$522,945	(\$522,945)	\$0	\$0
334	Meters and Meter Installations	\$8,216	\$12,770	\$20,986	\$19,914
340	Office Furniture and Equipment	\$14,639	(\$14,499)	\$140	\$122
340.1	Computer	\$0	\$122	\$122	\$92
341	Transportation Equipment	\$6,030	(\$6,030)	\$0	\$0
345	Power Operated Equipment	\$28,129	(\$28,129)	\$0	\$0
348	Miscellaneous Equipment	\$5,335	(\$5,335)	\$0	\$0
	Total	\$881,483	(\$837,834)	\$43,649	\$44,132
	Averaging Adjustment				\$483

Finding 5 (cont'd)

**Table 5-2
Country Club Utilities, Inc.
Accumulated Depreciation Wastewater
As of June 30, 2012**

<u>NARUC</u> <u>Acct. No.</u>	<u>Wastewater Plant</u>	<u>Per</u> <u>Utility</u>	<u>Audit</u> <u>Adjustment</u>	<u>Balance</u> <u>6/30/2012</u>	<u>Avg. Bal</u> <u>6/30/2012</u>
351	Organization	\$568	(\$568)	\$0	\$0
354	Structures and Improvements	\$229,555	(\$229,555)	\$0	\$0
361	Collecting Sewers - Gravity	\$190,419	(\$190,387)	\$32	\$16
364	Flow Measuring Devices	\$3,741	(\$3,741)	\$0	\$0
380	Treatment and Disposal Equipment	\$0	\$9,570	\$9,570	\$8,947
382	Outfall Sewer Lines	\$6,071	(\$6,071)	\$0	\$0
389	Other Plant and Misc. Equipment	\$1,880	(\$1,814)	\$66	\$40
390	Office Furniture and Equipment	\$1,220	(\$1,220)	\$0	\$0
390.1	Office Furn. and Equip. - Computer	\$7,000	(\$7,000)	\$0	\$0
391	Transportation Equipment	\$2,262	(\$2,122)	\$140	\$123
395	Power Operated Equipment	\$0	\$122	\$122	\$92
397	Miscellaneous Equipment	\$330	(\$330)	\$0	\$0
398	Other Tangible Plant	\$0	\$0	\$0	\$0
	Total	\$443,046	(\$433,115)	\$9,931	\$9,217
	Averaging Adjustment				<u>\$713</u>

Effect on the General Ledger: The following entry is needed to correct the general ledger as of June 30, 2012.

	<u>Debit</u>	<u>Credit</u>
Accumulated Depreciation - Water	\$837,834	
Accumulated Depreciation - Wastewater	\$433,115	
Retained Earnings		\$1,270,949
To adjust the general ledger balance for Accumulated Depreciation to the audit balance		

Effect on Staff Prepared Exhibits:

	<u>Debit</u>	<u>Credit</u>
Accumulated Depreciation - Water	\$837,834	
Accumulated Depreciation - Wastewater	\$433,115	
Retained Earnings		\$1,270,949
To adjust the Rate Base Exhibit for Accumulated Depreciation to the audit balance		

Finding 5 (cont'd)

	<u>Debit</u>	<u>Credit</u>
Depreciation Expense- Water		\$966
Depreciation Expense - Wastewater	\$1,427	
Retained Earnings		\$461
To adjust the NOI Exhibit for Depreciation Expense to the audit balance		

Averaging Adjustment

Accumulated Depreciation - Water	\$483
Accumulated Depreciation - Wastewater	\$713
To adjust Rate Base Exhibits for Averaging Adjustment to Accumulated Depreciation	

Finding 6: Contributions-in-Aid-of-Construction

Audit Analysis: CIAC recorded in the Utility's general ledger as of June 30, 2012, totals \$1,009,983 and \$444,506 for water and wastewater, respectively. According to the Utility's general ledger, journal entries were posted in 2005 recording CIAC of \$968,114 and \$392,668 for water and wastewater, respectively, to allocate the purchase price. However, as previously discussed, the Commission has never set rate base or approved an allocation of a purchase price for the Utility. Other journal entries were posted in 2005, 2006, and 2008, recording CIAC, but the Utility was unable to provide supporting documentation for the entries. The CIAC additions recorded in the Utility's Annual Reports for 2005 through 2011 reconciled to the amounts reported in the Utility's Federal Income Tax Returns for those years. In addition, the balances reported in the Utility's general ledger as of June 30, 2012, the 2011 annual report, and the 2011 Federal Tax Return match.

The Utility's service availability charges, which were approved in Docket No. 910792-WS, include meter installation charges of \$110 for a 5/8" x 3/4" meter and \$200 for a 1" meter, and plant capacity charges of \$425 and \$550 per equivalent residential connection for water and wastewater, respectively. As of June 30, 2012, the Utility had 407 residential water and wastewater connections (234 of which have a separate irrigation meter), four general service water and wastewater connections, and four general service irrigation connections.

According to the Utility's annual reports for 1998 through 2011, it appears that the Utility collected amounts ranging from \$1,175 to \$1,375 for new connections; however, the Utility did not provide supporting documentation to show how those amounts were determined. The Utility's 2005 Annual Report indicates that \$26,732 was collected from 35 new connections (\$764 per connection), of which \$11,944 was allocated to water and \$14,788 was allocated to wastewater. No explanation was provided to support those additions to CIAC. Further, while the Utility has connections with 3/4" meters, the Utility does not have an approved meter installation charge for that size meter.

It should be noted that, prior to the original certificate proceeding before the Commission, the Utility collected service availability charges from various builders with an agreement to hold those amounts subject to refund pending the Commission's approval of original certificates and initial rates and charges. In Order No. PSC-92-0730-FOF-WS, issued July 28, 1992, in Docket No. 910792-WS, the Commission ordered the Utility to refund a portion of the service availability charges it had collected based on the charges approved in Order No. 25788, as described above.

Table 6-1 shows the CIAC that the Utility should have collected as of June 30, 2012, based on the Utility's approved service availability charges. The Utility does not have an approved meter installation charge for a 3/4" meter; therefore, audit staff used \$110 per meter in its calculation. The approved charge for a 2" meter is actual cost; however, no information was available to determine the actual cost paid for 2" meters; therefore, audit staff used \$600 per meter in its calculation. According to the audit staff's billing analysis, the Utility has 411 water and wastewater customers as of June 30, 2012, of which 238 also have a separate irrigation meter. According to Commission Order No. 25788, the service availability charges approved in the

original certificate order were not applicable to the 73 customers that had already connected. Therefore, audit staff did not include a plant capacity charge or meter installation charge for the initial 73 customers in the calculation of CIAC. Of the 338 water customers included in the CIAC calculation, 234 have an irrigation meter. In addition, there are four irrigation only general service customers. Staff adjustments are summarized in Table 6-2.

Table 6-1
Country Club Utilities, Inc.
Contributions-in-Aid-of-Construction
As of June 30, 2012

	<u>Water</u>	<u>Irrigation</u>	<u>Wastewater</u>
Number of Connections	338	4	338
Plant Capacity Charges	\$143,650	\$1,700	\$185,900
Meter Installation Charges	\$68,000	\$33,800	
Total CIAC	<u>\$211,650</u>	<u>\$35,500</u>	<u>\$185,900</u>

Table 6-2
Country Club Utilities
Staff Adjustments to CIAC

<u>Per Books</u>	<u>Adjustment</u>	<u>Year-End Per Audit</u>	<u>Average Per Audit</u>	<u>Averaging Adjustment</u>
\$1,009,983	(\$762,833)	\$247,150	\$244,047	(\$3,103)
\$444,506	(\$258,606)	\$185,900	\$183,555	(\$2,345)

Finding 6 (cont'd)

Effect on the General Ledger: The following entry is needed to correct the general ledger as of June 30, 2012.

	<u>Debit</u>	-	<u>Credit</u>
CIAC - Water	\$ 762,833		
CIAC - Wastewater	\$ 258,606		
Retained Earnings			\$ 1,021,439
To adjust general ledger balance for CIAC to the audit balance			

Effect on Staff Prepared Exhibits:

	<u>Debit</u>	-	<u>Credit</u>
CIAC - Water	\$ 762,833		
CIAC - Wastewater	\$ 258,606		
Retained Earnings			\$ 1,021,439
To adjust Rate Base Exhibits for CIAC to the audit balance			

Finding 7: Accumulated Amortization of CIAC

Audit Analysis: The Utility's general ledger has only one account for Accumulated Amortization of CIAC with a balance at June 30, 2012, of \$797,497. Audit staff's calculation of Accumulated Amortization of CIAC balances as of June 30, 2012, shown in Table 7-1 is based on: 1) CIAC balances determined in Audit Finding 6, 2) Assumption that customers were added evenly from 1992 to the present, and 3) An amortization rate of 2.5%.

Table 7-1 shows the adjustments to the general ledger for Accumulated Amortization of CIAC as of June 30, 2012. Amortization of CIAC for the test year is \$6,101 and \$4,589 for water and wastewater, respectively.

**Table 7-1
Country Club Utilities
Accumulated Amortization of CIAC
As of June 30, 2012**

<u>NARUC</u> <u>Acct. No.</u> <u>Accumulated Amortization</u>	<u>Per</u> <u>Utility</u>	<u>Staff</u> <u>Adjustment</u>	<u>Per Staff</u> <u>6/30/2012</u>	<u>Avg. Bal</u> <u>6/30/2012</u>	<u>Avg. Adj.</u>
271-W Water	\$566,141	(\$25,432)	\$40,709	\$37,658	(\$3,051)
271-WW Wastewater	\$231,356	(\$183,010)	\$48,346	\$46,051	(\$2,295)

Effect on the General Ledger: The following entry is needed to correct the general ledger as of June 30, 2012.

	<u>Debit</u>	<u>Credit</u>
Retained Earnings	\$708,442	
Accumulated Amortization CIAC - Water		\$525,432
Accumulated Amortization CIAC - Wastewater		\$183,010
To adjust the general ledger balance for Accumulated Amortization CIAC to the audit balance		

Effect on Staff Prepared Exhibits:

	<u>Debit</u>	<u>Credit</u>
Retained Earnings	\$708,442	
Plant in Service - Water		\$525,432
Plant in Service - Wastewater		\$183,010
To adjust the Rate Base Exhibit for Accumulated Amortization CIAC to the audit balance		

	<u>Debit</u>	<u>Credit</u>
Retained Earnings	\$10,690	
Amortization Expense - Water		\$6,101
Amortization Expense - Wastewater		\$4,589
To adjust NOI Exhibit for Amortization Expense to the audit balance		

Finding 7 (cont'd)

Averaging Adjustment

Accumulated Amortization CIAC - Water	(\$3,051)
Accumulated Amortization CIAC - Wastewater	(\$2,295)
To adjust Rate Base Exhibits for Averaging Adjustment to Accumulated Amortization - CIAC	

Finding 8: Capital Structure

Audit Analysis: The Utility had collected customer deposits of \$10,846 as of June 30, 2012. The Utility does not have an approved tariff for initial customer deposits. The deposits are recorded on the Utility's books and records in an asset account titled "Deposits" and a payable account titled "Customer Deposits –Refundable". The Utility does not pay or credit interest for deposits held or refund deposits after 23 months of satisfactory payments as required by Rule 25-30.311 F.A.C. Therefore, the utility should refund these deposits back to the customer.

The Utility has 12 outstanding notes payable from individual and commercial lenders totaling \$566,939 as of June 30, 2012, with interest rates varying from 4% to 9%. The Utility was only able to provide a signed document for 4 of the 12 notes.

**Table 8-1
Country Club Utilities, Inc.
Notes Payable
As of June 30, 2012**

<u>Lender</u>	<u>Principal</u>	<u>Term</u>	<u>Interest Rate</u>	<u>Balance as of 6/30/2012</u>	<u>Avg. Balance as of 6/30/2012</u>
Highlands Independent Bank	\$500,000	5 Yrs.	8.25%	\$396,165	\$407,038
Highlands Independent Bank	\$45,409	3 Yrs.	9.00%	\$2,869	\$11,018
Private Investor	\$25,000	5 Yrs.	8.00%	\$37,070	\$44,482
Private Investor	\$25,000	til pd in full	7.00%	\$14,821	\$17,182
Private Investor	\$25,000	5 Yrs.	7.00%	\$14,821	\$17,182
Private Investor	\$25,000	5 Yrs.	7.00%	\$14,412	\$16,787
Private Investor	\$25,000	5 Yrs.	7.00%	\$14,412	\$16,978
Private Investor	\$5,000	2 Yrs.	8.00%	\$1,326	\$2,575
Private Investor	\$10,000	2 Yrs.	8.00%	\$3,083	\$5,565
Private Investor	\$30,000	-	7.00%	\$19,073	\$23,784
Private Investor	\$25,000	5 Yrs.	4.00%	\$24,245	\$12,123
Private Investor	\$25,000	5 Yrs.	6.00%	\$24,642	\$12,321
				<u>\$566,939</u>	<u>\$587,035</u>
Averaging Adjustment					\$20,096

Effect on the General Ledger: The following entry is needed to correct the general ledger as of June 30, 2012.

	<u>Debit</u>	<u>Credit</u>
Deposits	\$3,890	
Utility Deposits Refundable	\$6,956	
Cash or AP		\$10,846
To refund the customer deposits and to adjust the general ledger balance for Deposits and Utility Deposits Refu		

Finding 8 (cont'd)

Effect on Staff Prepared Exhibits:

	<u>Debit</u>	<u>Credit</u>
Deposits	\$3,890	
Utility Deposits Refundable	\$6,956	
Customer Deposits		\$10,846
To adjust the Capital Structure Exhibit for Customer Deposits to the audit balance		

Finding 9: Operating Revenues - Test Year

Audit Analysis: The Utility's billing system reflected total revenues of \$158,014 for water and \$102,850 for wastewater for the test year period ended June 30, 2012. Audit staff's calculation of total revenues, based on billing determinates and miscellaneous charges, totaled \$156,756 for water and \$103,382 for wastewater. The Utility's test year Operating Revenues and Annualized Operating Revenues, which includes the November 2011 index price index increase, are reflected in Tables 9-1 and 9-2.

**Table 9-1
Country Club Utilities, Inc.
Operating Revenues
Twelve Months Ended June 30, 2012**

<u>Revenue Description</u>	<u>Per Utility</u>	<u>Difference</u>	<u>Staff Adjusted</u>
Water Revenue	\$156,537	(\$1,258)	\$155,279
Miscellaneous (Late Fees & Billing Adjustments)	<u>1,477</u>	<u>0</u>	<u>1,477</u>
Total Water Revenue	\$158,014	(\$1,258)	\$156,756
Total Wastewater Revenue	\$102,850	\$532	\$103,382
Total Operating Revenues	<u>\$260,864</u>	<u>(\$726)</u>	<u>\$260,138</u>

**Table 9-2
Country Club Utilities, Inc.
Annualized Operating Revenues
Twelve Months Ended June 30, 2012**

<u>Revenue Description</u>	<u>Per Utility</u>	<u>Difference</u>	<u>Staff Adjusted</u>
Water Revenue	\$156,537	(\$589)	\$155,948
Miscellaneous (Late Fees & Billing Adjustments)	<u>1,477</u>	<u>0</u>	<u>1,477</u>
Total Water Revenue	\$158,014	(\$589)	\$157,425
Total Wastewater Revenue	\$102,850	\$793	\$103,643
Total Operating Revenues	<u>\$260,864</u>	<u>\$204</u>	<u>\$261,068</u>

Effect on the General Ledger: None

Effect on Staff Prepared Exhibits:

	<u>Debit</u>	<u>Credit</u>
Operating Revenues - Wastewater	\$793	
Operating Revenues - Water		\$589
Retained Earnings		\$204
To adjust the NOI Exhibit for Operating Revenues to the audit balance		

Finding 10: Operating Revenues and Regulatory Assessment Fee - Calendar Year 2011

Audit Analysis: The Utility reported revenues of \$149,425 and \$101,000 for water and wastewater, respectively on its 2011 RAF return. Audit staff recalculated 2011 RAFs based on audit calculated revenues of \$151,707 and \$105,335 for water and wastewater, respectively. The Utility underpaid RAFs by \$103 for water and \$195 for wastewater. See Tables 10-1 and 10-2 for details. See Finding 13 for RAF applicable to 12 months ended June 30, 2012.

**Table 10-1
Country Club Utilities, Inc.
2011 Operating Revenues**

<u>Revenue Description</u>	<u>Utility</u>	<u>Difference</u>	<u>Adjusted</u>
Water Revenue	\$147,222	\$2,282	\$149,504
Miscellaneous (Late Fees & Billing Adjustments)	<u>2,202</u>	<u>0</u>	<u>2,202</u>
Total Water Revenue	\$149,425	\$2,282	\$151,707
Total Wastewater Revenue	\$101,000	\$4,335	\$105,335
Total Operating Revenues	<u>\$250,425</u>	<u>\$6,617</u>	<u>\$257,042</u>

**Table 10-2
Country Club Utilities, Inc.
2011 Regulatory Assessment Fees**

<u>System</u>	<u>Audit Adjustment</u>	<u>RAF Rate</u>	<u>RAF Due</u>
Water	\$2,282	4.50%	\$103
Wastewater	<u>4,335</u>	4.50%	<u>195</u>
Total	<u>\$6,617</u>		<u>\$298</u>

Effect on the General Ledger: The following entry is needed to correct the general ledger as of June 30, 2012.

	<u>Debit</u>	<u>Credit</u>
Retained Earnings	\$6,319	
Taxes Other Than Income	\$298	
Operating Income - Water		\$2,282
Operating Income - Wastewater		\$4,335
To adjust the general ledger balance for 2011 Operating Revenues and TOTI to the audit Balance		

Effect on Staff Prepared Exhibits: Not applicable

Finding 11: Operation and Maintenance Expense

Audit Analysis: Audit staff determined the Utility's O&M Expense for the twelve months ended June 30, 2012, to be \$140,440 and \$81,918 for water and wastewater, respectively. Working capital allowance is calculated as one-eighth of audit staff's calculated O&M Expense. The general ledger entries following Tables 11-1 and 11-2 detail the reason for the adjustments.

We calculated Rent Expense based upon the square footage of the home office times the market rate per square foot of office space in Sebring, Florida which was then split 50/50 between water and wastewater. We calculated Transportation Expense based upon an audit staff calculated mileage times the federal rate of \$.55 per mile which was then split 50/50 between water and wastewater. We adjusted Insurance Expense to the actual cost of the water/wastewater liability insurance policy incurred during the test period. Audit staff adjusted Chemical Expense based upon the actual units provided to each system as listed on the vendor invoice. Power purchased was adjusted to actual test period amounts and were based upon the power company's bills which listed water plant, wastewater plant, and/or lift stations as the meter locations. Meter reading and operation/maintenance for the water and wastewater treatment systems are contracted out and are included in contractual services.

Table 11-1
Country Club Utilities, Inc.
Water O&M Expenses
Twelve Months Ended June 30, 2012

NARUC		Test	Staff	Staff
<u>Acct. No.</u>	<u>Account Description</u>	<u>Period</u>	<u>Staff</u>	<u>Adjusted</u>
		<u>Expenses</u>	<u>Adjustments</u>	<u>Balance</u>
615	Purchased Power	\$ 12,034	\$ 6,954	\$ 18,988
618	Chemicals	(4,095)	30,731	26,636
620	Materials and Supplies	22,678	(22,017)	661
630	Contractual Services	24,683	(13,304)	11,379
640	Rents	2,929	(722)	2,207
650	Transportation Expense	22,685	(22,414)	271
655	Insurance Expense	18,561	(16,644)	1,917
675	Miscellaneous Expense	40,965	(36,368)	4,597
		<u>\$ 140,440</u>	<u>\$ (73,784)</u>	<u>\$ 66,656</u>
	Calculation of Working Capital Allowance			<u>\$ 8,332</u>

Effect on the General Ledger: The following entries are needed to correct the general ledger as of June 30, 2012.

Finding 11 (cont'd)

NARUC			
<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
615	Purchased Power	\$461	
618	Chemicals	\$11,404	
620	Materials and Supplies	\$323	
630	Contractual Services	\$1,039	
650	Transportation Expense	\$4,534	
675	Miscellaneous Expense	\$450	
215	Retained Earnings		\$ 18,211
To remove the Utility's 2011 YE adjustments from rate case consideration			
		<u>Debit</u>	<u>Credit</u>
620	Materials and Supplies		\$1,321
630	Contractual Services		\$900
640	Rents		\$2,400
655	Insurance Expense		\$90
675	Miscellaneous Expense		\$3,230
215	Retained Earnings	\$7,941	
To remove undocumented expenses from rate case consideration			
		<u>Debit</u>	<u>Credit</u>
615	Purchased Power	\$6,519	
618	Chemicals	\$1,952	
630	Contractual Services	\$4,170	
640	Rents	\$1,993	
650	Transportation Expense	\$271	
675	Miscellaneous Expense	\$885	
215	Retained Earnings		\$15,790
To add expenses not previously posted in the G/L for Rate Case consideration			

Finding 11 (cont'd)

NARUC

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
618	Chemicals	\$19,886	
630	Contractual Services	\$6,108	
655	Insurance Expense		\$1,917
675	Miscellaneous Expense	\$296	
215	Retained Earnings		\$24,373
To reclassify O&M Expense between Water and Wastewater			

		<u>Debit</u>	<u>Credit</u>
615	Purchased Power	\$134	
620	Materials and Supplies		\$19,598
655	Insurance Expense	\$319	
675	Miscellaneous Expense	\$140	
215	Retained Earnings	\$19,005	
To adjust/reclassify O&M Expense among Water & Wastewater/PIS/Revenues/Other			

		<u>Debit</u>	<u>Credit</u>
620	Materials and Supplies		\$1,420
630	Contractual Services		\$1,336
640	Rents		\$316
650	Transportation Expense		\$10,299
655	Insurance Expense		\$14,955
675	Miscellaneous Expense		\$11,767
215	Retained Earnings	\$40,093	
To remove staff determined non-utility amounts from rate case consideration			

615	Purchased Power		\$161
618	Chemicals		\$2,511
630	Contractual Services		\$22,384
650	Transportation Expense		\$16,919
675	Miscellaneous Expense		\$23,142
215	Retained Earnings	\$65,117	
To remove staff determined posting errors from rate case consideration			

Finding 11 (cont'd)

**Table 11-2
Country Club Utilities, Inc.
Wastewater O&M Expenses
Twelve Months Ended June 30, 2012**

NARUC Acct. No.	Account Description	Test Period Expenses	Total Staff Adjustments	Staff Adjusted Balance
711	Sludge Removal	\$6,072	(\$222)	\$5,850
715	Purchased Power	\$6,213	\$1,881	\$8,095
718	Chemicals	\$24,760	(\$19,980)	\$4,780
720	Materials and Supplies	\$3,454	(\$2,322)	\$1,132
730	Contractual Services	\$26,633	(\$1,212)	\$25,421
740	Rents	\$3,309	(\$1,533)	\$1,776
750	Transportation Expense	\$263	\$8	\$271
755	Insurance Expense	\$1,154	\$764	\$1,918
775	Miscellaneous Expense	\$10,059	(\$8,377)	\$1,682
		<u>\$81,918</u>	<u>(\$30,993)</u>	<u>\$50,925</u>
	Calculation of Working Capital Allowance			<u><u>\$6,366</u></u>

Effect on the General Ledger: The following entries are needed to correct the general ledger as of June 30, 2012.

Finding 11 (cont'd)

Wastewater

NARUC

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
711	Sludge Removal	\$3,000	
718	Chemicals	\$574	
755	Insurance	\$938	
215	Retained Earnings		\$4,512
To remove the Utility's 2011 YE adjustments from rate case consideration			

		<u>Debit</u>	<u>Credit</u>
711	Sludge Removal		\$3,222
740	Rents		\$2,400
775	Miscellaneous Expense		\$5,230
215	Retained Earnings	\$10,852	

To remove undocumented expenses from rate case consideration

		<u>Debit</u>	<u>Credit</u>
715	Purchased Power	\$1,909	
718	Chemicals	\$349	
730	Contractual Services	\$19,920	
740	Rents	\$1,776	
750	Transportation Expense	\$271	
775	Miscellaneous Expense	\$885	
215	Retained Earnings		\$25,111
To add expenses not previously posted in the G/L for rate case consideration			

		<u>Debit</u>	<u>Credit</u>
718	Chemicals		\$19,886
730	Contractual Services		\$6,108
755	Insurance Expense	\$1,917	
775	Miscellaneous Expense		\$296
215	Retained Earnings	\$24,373	

To reclassify O&M Expense between Water and Wastewater

		<u>Debit</u>	<u>Credit</u>
715	Purchased Power	\$100	
720	Materials and Supplies		\$1,651
740	Rents		\$280
775	Miscellaneous Expense	\$140	
215	Retained Earnings	\$1,691	

To adjust/reclassify O&M Expense among Water and Wastewater/PIS/Revenues/Other

Finding 11 (cont'd)

NARUC			
<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
715	Purchased Power		\$128
718	Chemicals		\$499
720	Materials and Supplies		\$671
730	Contractual Services		\$6,378
740	Rents		\$21
750	Transportation Expense		\$263
755	Insurance Expense		\$2,092
775	Miscellaneous Expense		\$3,877
215	Retained Earnings	\$13,929	
To remove staff determined non-utility amounts from rate case consideration			
		<u>Debit</u>	<u>Credit</u>
718	Chemicals		\$518
730	Contractual Services		\$8,647
740	Rents		\$608
215	Retained Earnings	\$9,773	
To remove staff determined posting errors from rate case consideration			

Effect on Staff Prepared Exhibits: The following entry summarizes the adjustments to the Utility balances as of June 30, 2012.

	<u>Debit</u>	<u>Credit</u>
Operation and Maintenance Expenses - Water		\$73,784
Operation and Maintenance Expenses - Wastewater		\$30,993
Retained Earnings	\$104,777	
To adjust NOI Exhibit for Operating Expenses to the audit balance		

The working capital allowance is calculated using one-eighth of the staff's calculated O&M Expense balance as shown below.

Working Capital Allowance

Water (1/8 of \$66,656)	\$8,332
Wastewater (1/8 of \$50,924)	\$6,366
To adjust Rate Base Exhibits for Working Capital Allowance	

Finding 12: Pro forma Operation and Maintenance Expense

Audit Analysis: During our analysis of O&M Expense, we noted that the Utility has received a benefit from Mr. Harris' Utility management expertise and costs associated with customer billing and collection, but no expenses were recorded. Mr. Harris provided a schedule of the duties that he performs and the time spent on utility operations. He estimates he spends 70 hours a month overseeing all utility O&M operations, answering phone calls, responding to customer and regulatory agency inquiries and complaints, and performing customer billing and receivable functions. Mrs. Harris, Mr. Harris' wife, spends approximately 35 hours a month on billing and collection functions. Caitlin Harris, Mr. Harris' daughter, spends approximately four hours a month on customer billing.

Mr. Harris suggested the following amounts of compensation for the above individuals.

**Table 12-1
Country Club Utilities
Management Fees**

<u>Name</u>	<u>Cost Category</u>	<u>Total</u>	<u>Water</u>	<u>Wastewater</u>
Mr. Greg Harris	Management Fee	\$45,000	\$22,500	\$22,500
Mrs. Janet Harris	Customer Billing & Collection	\$15,000	\$7,500	\$7,500
Ms. Caitlin Harris (\$15 x 4 hrs x 12 months)	Customer Billing & Collection	\$720	\$360	\$360
Total		\$60,720	\$30,360	\$30,360

We could not determine an arms-length amount for the services being performed. Staff defers to the Division of Accounting and Finance for calculation of an appropriate amount for these services.

Effect on the General Ledger: Included for informational purposes only.

Effect on Staff Prepared Exhibits: Not applicable.

Finding 13: Taxes Other than Income

Audit Analysis: The Utility incurred expenses for Ad Valorem Taxes and Non-Ad Valorem Assessments from Highlands County Tax Collector on its water and wastewater acreage. The assessed value of the 3.07 acre parcel of the water plant was \$432,182. Taxes of \$6,554 were paid on the water plant on February 22, 2012. The assessed value of the 4.77 acre parcel for the wastewater plant was \$234,959. Taxes of \$3,601 were paid on the wastewater plant on March 30, 2012. Based upon the date the Utility paid its real estate taxes, discounts of \$197 and \$144 for water and wastewater, respectively, were lost.

Additionally, the prorated amount of Land – Water actually used by the Utility as described in Finding 4 is 10.78%. The adjustment for land not used for utility purposes is \$5,672.

The Utility’s Revenues for the test period are \$158,014 and \$102,580 for water and wastewater, respectively. RAFs associated with these Revenues are \$7,111 and \$4, 616, respectively. See Table 13-1 for details.

**Table 13-1
Country Club Utilities, Inc.
Taxes Other Than Income**

	<u>Per Utility</u>	<u>Adj.</u>	<u>Per Staff</u>
Water			
Property	\$6,554	(\$5,869)	\$685
RAF	\$0	\$7,111	\$7,111
Total	\$6,554	\$1,242	\$7,796
Wastewater			
Property	\$3,601	(\$144)	\$3,457
RAF		\$4,616	\$4,616
Total	\$3,601	\$4,472	\$8,073

Effect on the General Ledger: None.

Effect on Staff Prepared Exhibits:

	<u>Debit</u>	<u>Credit</u>
TOTI - Water	\$1,242	
TOTI - Wastewater	\$4,472	
Retained Earnings		\$5,714
To adjust NOI Exhibit for TOTI to the audit balance		

Exhibits

Exhibit 1: Rate Base

COUNTRY CLUB UTILITIES, INC.

RATE BASE WATER AVERAGE YEAR ENDED JUNE 30, 2012 DOCKET NO. 120172-WS

Description	Balance Per Utility	Audit Adjustments	Averaging Adjustments		Average Per Audit
Utility Plant in Service	\$1,501,763	(\$1,381,592)	(\$6,345)	AF-2	\$113,827
Land and Land Rights	\$19,418	(\$18,384)	\$0	AF-4	\$1,034
Contributions in Aid of Construction	(\$1,009,983)	\$762,833	\$3,103	AF-6	(\$244,047)
Accumulated Amortization of CIAC	\$566,141	(\$525,432)	(\$3,051)	AF-7	\$37,658
Accumulated Depreciation	(\$881,483)	\$837,834	(\$483)	AF-5	(\$44,132)
Working Capital	\$0	\$8,332	\$0	AF-11	\$8,332
Net Rate Base - Water	\$195,856	(\$316,409)	(\$6,776)		(\$127,328)

RATE BASE - WASTEWATER AVERAGE YEAR ENDED JUNE 30, 2012 DOCKET NO. 120172-WS

Description	Balance Per Utility	Audit Adjustments	Averaging Adjustments		Average Per Audit
Utility Plant in Service	\$645,455	(\$624,227)	(\$427)	AF-2	\$20,801
Land and Land Rights	\$23,548	(\$8,642)	\$0	AF-4	\$14,906
Construction Work in Progress	\$0	\$5,690	\$0	AF-2	\$5,690
Contributions in Aid of Construction	(\$444,506)	\$258,606	\$2,345	AF-6	(\$183,555)
Accumulated Amortization of CIAC	\$231,356	(\$183,010)	(\$2,295)	AF-7	\$46,051
Accumulated Depreciation	(\$443,046)	\$433,115	\$713	AF-5	(\$9,217)
Working Capital	\$0	\$6,366	\$0	AF-11	\$6,366
Net Rate Base - Wastewater	\$12,807	(\$112,102)	\$336		(\$98,958)

Exhibit 2: Capital Structure

**COUNTRY CLUB UTILITIES, INC
CAPITAL STRUCTURE
YEAR END JUNE 30, 2012
DOCKET NO. 120172-WS**

<u>Capital Components</u>	<u>Year-End Per Utility Balance</u>	<u>Specific Adjustments</u>	<u>Average Per Audit Balance</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Average Cost</u>
Customer Deposits	\$10,846	(10,846)	\$0			
Long Term Debt	\$566,939	20,093	\$587,032	100.00%	7.73%	7.73%
Total	<u>\$577,785</u>	<u>\$9,247</u>	<u>\$587,032</u>	<u>100.00%</u>	<u>7.73%</u>	<u>7.73%</u>

Exhibit 3: Net Operating Income**COUNTRY CLUB UTILITIES INC
NET OPERATING INCOME - WATER
12 MONTHS ENDED JUNE 30, 2012
DOCKET NO. 120172-WS**

<u>Description</u>	<u>Per Utility 6/30/2012</u>	<u>Audit Adjustments</u>		<u>Per Audit 6/30/2012</u>
Revenues	\$158,014	(\$589)	AF-9	\$157,425
Operation & Maintenance Expense	\$140,440	(\$73,784)	AF-11	\$66,656
Depreciation Expense		(\$966)	AF-5	(\$966)
Amortization of CIAC		(\$2,602)	AF-7	(\$2,602)
Taxes Other Than Income Expense	\$6,554	\$1,215	AF-13	\$7,769
Operating Expenses	<u>\$146,994</u>	<u>(\$76,137)</u>		<u>\$70,857</u>
Net Operating Income	<u>\$11,020</u>	<u>\$75,548</u>		<u>\$86,568</u>

**COUNTRY CLUB UTILITIES INC
NET OPERATING INCOME - WASTEWATER
12 MONTHS ENDED JUNE 30, 2012
DOCKET NO. 120172-WS**

<u>Description</u>	<u>Per Utility 6/30/2012</u>	<u>Audit Adjustments</u>		<u>Per Audit 6/30/2012</u>
Revenues	\$102,850	\$793	AF-9	\$103,643
Operation & Maintenance Expense	\$81,918	(\$30,994)	AF-11	\$50,924
Depreciation Expense		\$1,427	AF-5	\$1,427
Amortization of CIAC		(\$3,155)	AF-7	(\$3,155)
Taxes Other Than Income Expense	\$3,601	\$4,520	AF-13	\$8,121
Operating Expenses	<u>\$85,519</u>	<u>(\$28,202)</u>		<u>\$57,317</u>
Net Operating Income	<u>\$17,331</u>	<u>\$28,995</u>		<u>\$46,326</u>