

State of Florida



Public Service Commission

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COMMISSION CLERK

DATE: February 11, 2013
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 120269-WU
Company Name: Pinecrest Utilities, LLC
Company Code: WU954
Audit Purpose: A1b Staff Assisted Rate Case
Audit Control No.: 12-335-4-2

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There were confidential work papers associated with this audit.

LD/th

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

00788 FEB 11 2013

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

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

Auditor's Report

Pinecrest Utilities, LLC
Staff-Assisted Rate Case

Twelve Months Ended September 30, 2012

Docket No. 120269-WU
Audit Control No. 12-335-4-2

February 8, 2013

A handwritten signature in blue ink that reads "Linda Hill-Slaughter".

Linda Hill-Slaughter
Audit Manager

A handwritten signature in blue ink that reads "Kathy Welch".

Kathy Welch
Reviewer

Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
Audit Findings	
1: Accumulated Depreciation and Depreciation Expense.....	6
2: Accumulated Amortization and Amortization Expense of CIAC	7
3: Operating Revenue.....	8
4: Residential and General Revenues.....	10
5: Annualized Revenue	11
6: Operation and Maintenance Expense.....	13
7: Operation and Maintenance Expense – Pro Forma Adjustments	15
8: Common Costs.....	16
9: Bad Debt	21
10: Transportation Expense	22
11: Taxes Other Than Income.....	23
Exhibits	
1: Rate Base	24
2: Rate Base Adjustments	25
3: Capital Structure	26
4: Net Operating Income.....	27
5: Net Operating Income Adjustments.....	28

Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated November 29, 2012. We have applied these procedures to the attached schedules prepared by Audit Staff in support of Pinecrest Utilities, LLC's request for a Staff-Assisted Rate Case in Docket No. 120269-WU.

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

Objectives and Procedures

General

Definitions

Utility refers to Pinecrest Utilities, LLC.

Test Year refers to the 12-months ended September 30, 2012.

Background

Pinecrest Utilities, LLC is a Class C water utility that provides wastewater services to approximately 145 mobile home customers in Polk County, Florida. Rates were last established by the Commission for the predecessor company, Pinecrest Ranches, Inc. in the Staff-Assisted Rate Case, Docket No.090414-WU. The Commission approved the transfer of Certificate No. 588-W from Pinecrest Ranches, Inc. to Pinecrest Utilities, LLC in Order No PSC-12-0475-PAA, Docket No. 110311-WU, on September 18, 2012. Rate base was established as of June 30, 2011, in that order.

Utility Books and Records

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

Procedure: We reviewed the Utility's accounting system and determined that they are in compliance with the NARUC USOA.

Rate Base

Utility Plant in Service

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

Procedures: We obtained the water plant balances as of June 30, 2011, that were established in Docket 110311-WU. We reviewed documentation to support additions to plant for the period July 1, 2011, through September 30, 2012. We scheduled year-end and average account balances as of September 30, 2012. We toured the Utility's water facility to determine the presence and condition of plant assets. We requested plans and cost estimates for future improvements for inclusion in staff's pro forma review. Pro forma estimates were not provided for plant.

Land & Land Rights

Objectives: The objectives were to determine whether utility land is: 1) Recorded at original cost, 2) Owned or secured under a long-term lease, and 3) Recorded in the general ledger according to the last Commission Order.

Procedures: We obtained the land balance as of June 30, 2011, that was established in Docket 110311-WU. We toured the land. We accessed the Polk County Property Appraiser's Website to verify the legal description of the property, whether any sales and purchases occurred, and to verify the visual description of the property as compared with the property toured. We accessed the Polk County Clerk's Website to verify the Utility's Warranty Deed.

Accumulated Depreciation

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

Procedures: We obtained the Accumulated Depreciation balances as of June 30, 2011, that were established in Docket 110311-WU. We calculated the annual accruals to Accumulated Depreciation from July 1, 2011, through September 30, 2012, using the depreciation rates established by Rule 25-30.140(2), Florida Administrative Code (F.A.C.). Accumulated Depreciation was not booked by the Utility during the test period. Finding 1 discusses the proposed adjusting entries for Accumulated Depreciation.

Contributions-in-Aid-of-Construction

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

Procedures: We obtained the CIAC balance as of June 30, 2011, that was established in Docket 110311-WU. We observed whether new homes or developments were present during staff's plant tour. We reviewed the Utility owner's 2011 Federal Tax Return. We reviewed cash receipts for possible contributions. We verified that there were no developer agreements or lot sales agreements.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine accruals to Accumulated Amortization of CIAC are properly recorded in compliance with Commission rules and verify that the adjustments to Accumulated Amortization of CIAC in the Utility's last rate proceeding were recorded in the general ledger.

Procedures: We obtained the Accumulated Amortization of CIAC balance as of June 30, 2011, that was established in Docket 110311-WU. We calculated Amortization for CIAC from July 1, 2011, to September 30, 2012. Amortization of CIAC was not booked by the Utility during the test period. Finding 2 discusses the adjustments to Accumulated Amortization.

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 adjustment as of September 30, 2012, using one-eighth of Operation and Maintenance (O&M) Expense as required by Commission Rule 30.433(2), F.A.C.

Capital Structure

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

Procedures: We reviewed the cost of capital components of the Utility. We recalculated the components and cost rates using averages. We prepared a schedule to reconcile rate base to the capital structure. We prepared a weighted cost of capital structure schedule. We obtained a copy of all long-term debt instruments. We obtained and reviewed a schedule of Customer Deposits.

Net Operating Income

Operating Revenue

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

Procedures: We determined the Utility's revenues for the 12-month period ending September 30, 2012, by tracing them to the Utility's general ledger and billing reports. We verified that the Utility is using its Commission authorized tariff rates by recalculating a sample of residential and general service customers' bills in the test year. We prepared a billing analysis of the consumption from the billing reports. Finding 3 addresses our recommended adjustments to operating revenues. Finding 4 addresses the Utility's use of rates that were not in the tariff. Finding 5 addresses our recommended adjustment to annualize revenues for the last indexing rate change.

Operation and Maintenance (O&M) Expense

Objectives: The objectives were to determine whether the: 1) Utility's O&M Expense is properly recorded in compliance with the NARUC USOA and Commission Rules, 2) Expenses are classified in compliance with Commission rules and the USOA, 3) Utility has adequate support for any charges from an affiliate and that the affiliate uses a reasonable allocation methodology to charge costs to the Utility, and 4) Expenses are representative of ongoing utility operations.

Procedures: We reviewed O&M Expense for the test year. We reviewed invoices for proper period, amount, classification, support, recurring, and whether utility related. We scheduled the cost of contracted services by type of service. We examined related party transactions with other Utilities owned or managed by Mr. Smallridge for benefits received by the Utility but having no costs assigned. We have determined the most recent costs that are common to all the Utilities and established an allocation percentage based on number of customers. We determined if any additional expenses are required and obtained estimates from the Utility for these items. Findings 6, 7, 8, and 9 address recommended adjustments to O&M Expense.

Taxes Other than Income

Objectives: Our objective was to determine that Taxes Other Than Income are properly recorded in compliance with Commission rules and agree to the tax returns.

Procedures: We verified water Taxes Other Than Income for the 12-month period ending September 30, 2012, by tracing to original source documentation. We reviewed the 2011 Regulatory Assessment Fee returns. Finding 10 addresses our recommended adjustments to Taxes Other Than Income.

Audit Findings

Finding 1: Accumulated Depreciation and Depreciation Expense

Audit Analysis: A review of the Utility’s general ledger indicated that Depreciation Expense and Accumulated Depreciation were not booked since June 30, 2011, in Docket 110311-WU. Staff’s calculation of Depreciation Expense and Accumulated Depreciation for the test year is found in Table 1.

Table 1

NARUC Acct. #	Account Description	Dep. Exp. Per Order	Balance Per Order	6/11-9/11 Expense	Balance 9/30/11	Test Year Additions	Test Year 9/30/12	Test Year Average
304	Structures and Imp.	3.70%	\$ 4,587.00	\$ 53.22	\$ 4,640.22	\$ 212.86	\$ 4,853.08	\$ 4,746.65
307	Wells & Springs	3.70%	\$ 8,398.00	\$ 230.04	\$ 8,628.04	\$ 920.15	\$ 9,548.19	\$ 9,088.11
309	Supply Mains	3.13%	\$ 2,043.00	\$ 22.19	\$ 2,065.19	\$ 93.83	\$ 2,159.02	\$ 2,112.10
311	Pumping Equipment	5.88%	\$ 9,363.00	\$ 164.59	\$ 9,527.59	\$ 658.35	\$ 10,185.94	\$ 9,856.76
320	Water Treat. Equip.	5.88%	\$ 1,215.00	\$ 9.26	\$ 1,224.26	\$ 257.65	\$ 1,481.91	\$ 1,353.09
330	Distribution Res.	3.03%	\$ 8,672.00	\$ 86.73	\$ 8,758.73	\$ 346.91	\$ 9,105.64	\$ 8,932.18
331	Trans. & Distr. Mains	2.63%	\$ 49,634.00	\$ 662.34	\$ 50,296.34	\$ 2,649.36	\$ 52,945.70	\$ 51,621.02
333	Services	2.86%	\$ 9,784.00	\$ 109.73	\$ 9,893.73	\$ 438.92	\$ 10,332.65	\$ 10,113.19
334	Meters & Meter Inst.	5.88%	\$ 10,179.00	\$ 303.91	\$ 10,482.91	\$ 1,262.98	\$ 11,745.89	\$ 11,114.40
335	Hydrants	2.50%	\$ 3,334.00	\$ 52.78	\$ 3,386.78	\$ 211.10	\$ 3,597.88	\$ 3,492.33
348	Vehicle - Ford F-150	16.67%	\$ -	\$ 166.70	\$ 166.70	\$ 1,333.60	\$ 1,500.30	\$ 833.50
	Total		\$ 107,209.00	\$ 1,861.48	\$ 109,070.48	\$ 8,385.71	\$ 117,456.18	\$ 113,263.33
	Per General Ledger				\$ 107,209.00	\$ -	\$ 107,209.00	\$ 107,209.00
	Difference				\$ 1,861.48	\$ 8,385.71	\$ 10,247.18	\$ 6,054.33

Effect on the General Ledger: The following entry is needed to correct the general ledger as of September 30, 2012. Since the books are already closed, depreciation expense should be booked to Retained Earnings.

Account	Debit	Credit
Retained Earnings	\$ 10,247.19	
Accumulated Depreciation		\$ 10,247.19

Effect on Staff Prepared Exhibits: Average Accumulated Depreciation was increased by \$6,054.33. Depreciation Expense was increased by \$8,385.71.

Finding 2: Accumulated Amortization and Amortization Expense of CIAC

Audit Analysis: A review of the Utility’s general ledger indicated that Amortization Expense and Accumulated Amortization on CIAC were not booked since June 30, 2011, in Docket 110311-WU. Staff’s calculations of Amortization Expense and Accumulated Amortization for the test year per Rule 25-30.140 are found in Table 2.

Table 2

NARUC Acct. #	Account Description	Amort. Rates	Per Order 6/30/11	Expense 6/11-9/11	Balance 9/30/11	Test Year Additions	Test Year 9/30/12	Test Year Average
304	Structures and Improv.	3.70%		\$ 2.04		\$ 8.14		
307	Wells & Springs	3.70%		\$ 42.83		\$ 171.31		
309	Supply Mains	3.13%		\$ 4.30		\$ 17.22		
311	Pumping Equipment	5.88%		\$ 37.29		\$ 149.18		
320	Water Treatment Equip.	5.88%		\$ -		\$ -		
330	Distribution Reservoirs	3.03%		\$ -		\$ -		
331	Trans. & Distr. Mains	2.63%		\$ 478.71		\$ 1,914.82		
333	Services	2.86%		\$ 109.73		\$ 438.92		
334	Meters & Meter Install.	5.88%		\$ -		\$ -		
335	Hydrants	2.50%		\$ 26.53		\$ 106.10		
	Total		\$ 68,020.00	\$ 701.42	\$ 68,721.42	\$ 2,805.69	\$ 71,527.11	\$ 70,124.27
	Per General Ledger				\$ 68,020.00	\$ -	\$ 68,020.00	\$ 68,020.00
	Difference				\$ 701.42	\$ 2,805.69	\$ 3,507.11	\$ 2,104.27

Effect on the General Ledger: The following entry is needed to correct the general ledger as of September 30, 2012. Since the books are already closed, amortization expense should be booked to Retained Earnings.

Account	Debit	Credit
Accumulated Amortization	\$ 3,507.11	
Retained Earnings		\$ 3,507.11

Effect on Staff Prepared Exhibits: Average Accumulated Amortization was increased by \$2,104.27. Amortization Expense was increased by \$2,805.69.

Finding 3: Operating Revenue

Audit Analysis: A review of the Utility's general ledger indicates that Revenues were not booked during January 1, 2012, through September 30, 2012 of the test year. Additionally, there were a number of Miscellaneous Revenue items that were either misclassified or incorrectly billed. In 4 instances, customers were charged a \$7 NSF fee for returned checks. The Utility does not have an effective tariff for this charge. The Utility charged both \$10 premise visit fee and the \$15 reconnect fee to customers in the same month 17 times during the test year. The tariff states the premise visit should be charged in lieu of a reconnect fee. Table 3 reflects adjustments made to Revenues to correct the test year.

Effect on the General Ledger: The following entry is needed to correct the general ledger as of September 30, 2012. Since the books are already closed, Revenues should be booked to Retained Earnings.

Effect on Staff Prepared Exhibits: Revenue was increased by \$44,807.20.

Account	Debit	Credit
Accounts Receivable	\$ 47,567.05	
Sales Tax Payable		\$ 2,759.85
Retained Earnings		\$ 44,807.20

Table 3

Month	Residential Billed	Premise Visits	Reconnect Turn on	Other	Late Fee	Total Residential	General Billed	Total Revenue
Oct-11	\$ 3,869.29	\$ 30.00	\$ 45.00		\$ 62.50	\$ 4,006.79	\$ 56.98	\$ 4,063.77
Nov-11	\$ 4,110.16	\$ 40.00	\$ 50.00	\$ 75.66	\$ 115.00	\$ 4,390.82	\$ 42.83	\$ 4,433.65
Dec-11	\$ 4,366.37	\$ 60.00	\$ 105.00		\$ 247.50	\$ 4,778.87	\$ 74.33	\$ 4,853.20
Jan-12	\$ 3,984.41		\$ 30.00	\$ 7.00	\$ 275.00	\$ 4,296.41	\$ 71.68	\$ 4,368.09
Feb-12	\$ 4,112.06		\$ 90.00	\$ 7.00	\$ 269.50	\$ 4,478.56	\$ 35.69	\$ 4,514.25
Mar-12	\$ 4,391.44	\$ 50.00	\$ 75.00	\$ (11.00)	\$ 231.00	\$ 4,736.44	\$ 77.36	\$ 4,813.80
Apr-12	\$ 4,915.85		\$ 45.00	\$ 3.00	\$ 297.00	\$ 5,260.85	\$ 14.14	\$ 5,274.99
May-12	\$ 4,795.70		\$ 30.00		\$ 258.50	\$ 5,084.20	\$ 81.53	\$ 5,165.73
Jun-12	\$ 4,686.19	\$ 10.00	\$ 30.00	\$ 13.88	\$ 264.00	\$ 5,004.07	\$ 29.73	\$ 5,033.80
Jul-12	\$ 4,504.92		\$ 30.00	\$ 84.98	\$ 308.00	\$ 4,927.90	\$ 25.00	\$ 4,952.90
Aug-12	\$ 4,633.63		\$ 55.00		\$ 280.50	\$ 4,969.13	\$ 35.31	\$ 5,004.44
Sep-12	\$ 4,314.14	\$ 55.00	\$ 30.00	\$ (8.18)	\$ 291.50	\$ 4,682.46	\$ 39.21	\$ 4,721.67
Revenues	\$ 52,684.16	\$ 245.00	\$ 615.00	\$ 172.34	\$ 2,900.00	\$ 56,616.50	\$ 583.79	\$ 57,200.29
Adjustments	\$ 596.22	\$ 40.00	\$ (30.00)	\$ (54.50)	\$ -	\$ 551.72	\$ -	\$ 551.72
Adj Revenue	\$ 53,280.38	\$ 285.00	\$ 585.00	\$ 117.84	\$ 2,900.00	\$ 57,168.22	\$ 583.79	\$ 57,752.01
Per General Ledger	\$ 12,106.97	\$ 100.00	\$ 210.00	\$ 118.00	\$ 410.00	\$ 12,944.97	\$ -	\$ 12,944.97
Adjustment	\$ 41,173.41	\$ 185.00	\$ 375.00	\$ (0.16)	\$ 2,490.00	\$ 44,223.25	\$ 583.79	\$ 44,807.04

Finding 4: Residential and General Revenues

Audit Analysis: In comparing the Utility's Residential and General effective tariffs to the monthly Billing Detail Reports, staff noted that during the months of October 1, 2011, through February 28, 2012, incorrect base and usage rates were charged to customers. The base rate was higher than the tariff and the gallonage rate was lower. The net effect is an under billing of (\$99.29). Table 4 recaps the effect of this error. This adjustment does not affect the filing because revenues are annualized in Finding 5.

Table 4

Actual Billed

	Billings	Base Charge	Subtotal	Usage	Gallonage Chg/K	Subtotal	Total
Residential							
Oct. 11 - Feb. 12	727	\$ 15.13	\$ 10,999.51	2,890,347	\$ 3.45	\$ 9,971.70	\$ 20,971.21
March 12 - Sept. 12	1,020	\$ 14.14	\$ 14,422.80	4,192,929	\$ 4.26	\$ 17,861.88	\$ 32,284.68
	1,747		\$ 25,422.31	7,083,276		\$ 27,833.57	\$ 53,255.88
General							
Oct. 11 - Feb. 12							
March 12 - Sept. 12	5	\$ 15.13	\$ 75.65	59,670	\$ 3.45	\$ 205.86	\$ 281.51
	7	\$ 14.14	\$ 98.98	47,724	\$ 4.26	\$ 203.30	\$ 302.28
Total	12		\$ 174.63	107,394		\$ 409.17	\$ 583.80
	1,759		\$ 25,596.94	7,190,670		\$ 28,242.74	\$ 53,839.68

Rates Per Phase 1 & Phase 11 Tariffs

	Billings	Base Charge	Subtotal	Usage	Gallonage Chg/K	Subtotal	Total
Residential							
Oct. 11 - Feb. 12	727	\$ 13.17	\$ 9,574.59	2,890,347	\$ 3.97	\$ 11,474.68	\$ 21,049.27
March 12 - Sept. 12	1020	\$ 14.14	\$ 14,422.80	4,192,929	\$ 4.26	\$ 17,861.88	\$ 32,284.68
	1,747		\$ 23,997.39	7,083,276		\$ 29,336.56	\$ 53,333.95
General							
Oct. 11 - Feb. 12	5	\$ 13.17	\$ 65.85	59,670	\$ 3.97	\$ 236.89	\$ 302.74
March 12 - Sept. 12	7	\$ 14.14	\$ 98.98	47,724	\$ 4.26	\$ 203.30	\$ 302.28
Total	12		\$ 164.83	107,394		\$ 440.19	\$ 605.02
	1,759		\$ 24,162.22	7,190,670		\$ 29,776.75	\$ 53,938.97
Difference			\$ 1,434.72			\$ (1,534.01)	\$ (99.29)

Effect on the General Ledger: There is no effect on the general ledger.

Effect on Staff Prepared Exhibits: There is no effect on the exhibits.

Finding 5: Annualized Revenue – Test Year

Audit Analysis: The Utility’s billing detail reflected total Revenues of \$53,839.68 for the test year. Based on the billing determinants and miscellaneous charges and adjustments, staff’s calculation of Revenues totaled \$57,752.01. Annualized Revenue is reflected in Table 5.

Table 5

Actual Billed							
	Billed	Base Charge	Subtotal	Usage	Gal. Chg/K	Subtotal	Total
Residential							
10/2011 - 2/2012	727	\$ 15.13	\$ 10,999.51	2,890,347.00	\$ 3.45	\$ 9,971.70	\$ 20,971.21
3/2012 - 9/2012	1,020	\$ 14.14	\$ 14,422.80	4,192,929.00	\$ 4.26	\$ 17,861.88	\$ 32,284.68
	1,747		\$ 25,422.31	7,083,276.00		\$ 27,833.57	\$ 53,255.88
General							
10/2011 - 2/2012	5	\$ 15.13	\$ 75.65	59,670.00	\$ 3.45	\$ 205.86	\$ 281.51
3/2012 - 9/2012	7	\$ 14.14	\$ 98.98	47,724.00	\$ 4.26	\$ 203.30	\$ 302.28
	12		\$ 174.63	107,394.00		\$ 409.17	\$ 583.80
Total			\$ 25,596.94	7,190,670.00		\$ 28,242.74	\$ 53,839.68
Annualized Revenue Calculation							
	Billed	Charge	Subtotal	Usage	Gal. Chg/K	Subtotal	Total
Residential							
10/2011 - 2/2012	727	\$ 14.14	\$ 10,279.78	2,890,347.00	\$ 4.26	\$ 12,312.88	\$ 22,592.66
3/2012 - 9/2012	1,020	\$ 14.14	\$ 14,422.80	4,192,929.00	\$ 4.26	\$ 17,861.88	\$ 32,284.68
	1,747		\$ 24,702.58	7,083,276.00		\$ 30,174.76	\$ 54,877.34
General							
10/2011 - 2/2012	5	\$ 14.14	\$ 70.70	59,670.00	\$ 4.26	\$ 254.19	\$ 324.89
3/2012 - 9/2012	7	\$ 14.14	\$ 98.98	47,724.00	\$ 4.26	\$ 203.30	\$ 302.28
	12		\$ 169.68	107,394.00		\$ 457.50	\$ 627.18
Total			\$ 24,872.26	7,190,670.00		\$ 30,632.25	\$ 55,504.51
Difference			\$ 724.68	0.00		\$ (2,389.51)	\$ (1,664.83)
Determined Annualized Revenue using the most current rates times billing analysis data and comparing to actual billed.							

The Regulatory Assessment Fees (RAF) on Annualized Revenues, including miscellaneous charges of \$59,417.17, is \$2,673.77 based on the current 4.5 percent rate. The Utility booked \$2,250.94 in the test year. The RAF assessment needs to be increased by \$422.83.

Effect on the General Ledger: There is no effect on the general ledger.

Effect on Staff Prepared Exhibits: Revenues were increased by \$1,664.84. Taxes Other than Income were increased by \$422.83.

Breakdown of Revenue by Customer Class

Account	Debit	Credit
Residential Revenues		\$ 1,621.46
General Revenues		\$ 43.38
Total		\$ 1,664.84

Finding 6: Operation and Maintenance Expense

Audit Analysis: Based on the review of supporting documentation, the adjustments that follow were made to test year expenses.

1. We increased Account 603 – Salaries & Wages-Officers by \$230.12 to remove the loan payments and credits for a loan from Vering, Inc. We removed an out of period expense of \$150 from Officer Salary. The net adjustment to this account was an increase of \$80.12.
2. We removed late fees and penalties of \$140.85 from Account 615 - Purchased Power to Account 426 - Nonutility expenses.
3. We transferred a \$90 credit from revenue to Account 618 – Materials and Supplies for a reimbursement for cutting a pipe. We removed undocumented expenses totaling \$2,243.07 as listed in Table 6.

Table 6

Date Posted	Vendor	Amount
11/1/2011	USA Blue Book	\$ 204.90
12/27/2011	Center State Checking Acct.	\$ 149.93
2/9/2012	USA Blue Book	\$ 243.73
3/23/2012	Visa Credit Card	\$ 198.25
8/3/2012	Center State Checking Acct.	\$ 1,446.26
		\$ 2,243.07

Net adjustments to the account totaled a reduction of \$2,333.07

4. We reclassified meter reading expenses of \$290.00 from Account 630 – Contractual Services - Billing to Account 636 – Contractual Services – Other.
5. We reclassified the rental of an air valve of \$125.52 from Account 640 - Rents to Account 675 – Miscellaneous Expense.
6. We removed a 2011 year-end adjusting journal entry credit of \$409.88 in Account 650 – Transportation because a portion of the adjustment was for out of period items.
7. We removed a 2011 year-end adjusting journal entry credit of \$321.87 in Account 655 – Insurance Expense because a portion of the adjustment was for out of period items.
8. We removed an undocumented adjustment of \$145.33 from Account 401 – Other Operating Expense to Account 426 - Nonutility expenses.
9. Account 636-Contractual Services - Other included \$750 for a tank inspection. Since the tank is inspected every five years, this amount should be amortized over this time period at an amount of \$150 per year. Therefore, \$600(\$150 x 4 years) was removed and transferred to deferred maintenance.
10. We removed late fees for purchased power of \$82.10 from Account 675 - Miscellaneous Expense to Account 426 - Nonutility expense.

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

Effect on Staff Prepared Exhibits: O&M Expense was reduced by \$2,489.48.

Finding 7: Operation and Maintenance Expense Pro Forma Adjustments

Audit Analysis: Expenses increased after the test year for meter reading and insurance.

- 1) Account 675 - Contractual Services – Other is increased by \$1,827.00 to establish the appropriate amount of meter reading expense for the Utility. The expense calculation is based on 145 meters @ \$1.05 each for 12 months which is the current rate being paid to the meter reader. Meter reading in the test year is removed in Finding 7.
- 2) Account - 655 Insurance Expense – We increased the Utility’s property insurance by \$325.06 in an attempt to reflect the full cost of insuring the plant for the year. A total of \$901 was included in the test year. However, on the last day of field work, we determined that this amount is not accurate and have asked Mr. Smallridge to provide the actual current cost of insurance to the analyst.

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

Effect on Staff Prepared Exhibits: O&M Expense is increased by \$2,152.06.

Finding 8: Common Costs

Audit Analysis: Mr. Smallridge manages Alturas Utilities, LLC and Sunrise Utilities, LLC. He owns Pinecrest Utilities, LLC and West Lakeland Wastewater, LLC. He is also managing Four Points Utility Corporation (Four Points) and Bimini Bay Utilities (Bimini Bay) while they are in receivership. He does the billing for Lake Forest Utility (Lake Forest) and East Marion Sanitary Systems (East Marion). During the test year, the Utility recorded expenses from several employees as contract services and booked them to each Utility. He also allocated some invoices for common costs. The employees providing the services in the test year have changed and the allocation of costs were not consistent.

As of January 1, 2013, Mr. Smallridge is recording common costs in a company called Florida Utility Service. The common costs among the Utilities are going to be allocated from this company. He is currently paying 2 employees as salaried employees and himself and his bookkeeper as contractors. We have annualized his current costs on Table 8-3 and allocated costs based on the number of customers. The maintenance employee has not been allocated to Lake Forest and East Marion. We are removing the actual test year costs and including the projected costs as a Pro Forma adjustment.

However, Polk County is considering purchasing Four Points and Bimini Bay. If these 2 Utilities are purchased, the fixed costs will be allocated to fewer Utilities and the costs will increase. According to the Utility, these costs are fixed and cannot be decreased. If Mr. Smallridge continues to manage Four Points and Bimini Bay, the Utility expects to hire additional maintenance personnel that will need to be charged directly to those Utilities. Therefore, we have provided both the allocated costs using the current allocations and the costs if Four Points and Bimini Bay are sold. If this occurs before this case closes, expenses will need to be increased.

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

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

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

A truck that cost \$8,000 was added to Pinecrest's plant in service balances in August 2011. Mr. Smallridge had planned to move the truck to Florida Water Service since it is used for all of the Utilities. However, after the end of the test year, the truck was totaled. Therefore, we have removed all entries associated with this truck in the proforma adjustments. We did not credit

accumulated depreciation for the entire \$8,000 that the truck cost because the insurance has not yet paid the claim on the truck. The salvage the Utility receives is expected to offset the entire balance. Therefore, for purposes of this report, we have removed the following:

Account	Adjustment
Average Plant	\$ (8,000.00)
Average Accumulated Depreciation	\$ 833.50
Depreciation Expense	\$ (1,333.60)

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

Effect on Staff Prepared Exhibits: Average Plant was decreased by \$6,498.05. Average Accumulated Depreciation was decreased by \$833.50. Operating expenses were decreased by \$1,783.63. Depreciation Expense was decreased by \$881.96.

Allocation Percentages Used to Allocate Common Costs

Table 8-1

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

Allocated Rate Base Items

Table 8-2

Rate Base	Account	Plant	Acc. Dep.	Dep. Exp.
6 yr dep	Transportation Equipment	\$ 2,435.50	\$ 202.96	\$ 202.96
15 yr dep	Meter Reading Equipment	\$ 987.90	\$ 98.79	\$ 65.86
15 yr dep	Office Furniture & Equipment	\$ 865.00	\$ 28.83	\$ 28.83
		\$ 4,288.40	\$ 330.58	\$ 297.65
11.75%	Pinecrest allocation	\$ 503.90	\$ 38.84	\$ 34.98
100.00%	Tractor	\$ 2,500.00	\$ 416.67	\$ 416.67
		\$ 3,003.90	\$ 455.51	\$ 451.64
	Average	\$ 1,501.95	\$ 227.76	

Allocated Expenses

Table 8-3

Account	Amount	Description	10.42% Pinecrest Current Allocation	15.56% Pinecrest Allocation 4Pt & Bimini Bay Sale
Employee Pension and Benefits	\$ 5,500.00	Mr. Smallridge IRA Contribution	\$ 573.33	\$ 855.69
Rent	\$ 6,792.36	Rent on new office	\$ 708.05	\$ 1,056.75
Cell phone	\$ 1,694.04	Mike's cell phone \$155/month +126.88 2nd month	\$ 176.59	\$ 263.56
AutoDialer	\$ 944.88	Per bank charges	\$ 98.50	\$ 147.00
Office Supplies	\$ 4,800.00	Average of three months Quill bills	\$ 500.36	\$ 746.78
Electric Office	\$ 1,384.56	Based on February bill	\$ 144.33	\$ 215.41
Internet and phone office	\$ 3,126.72	Bighthouse January 2013	\$ 325.93	\$ 486.45
PO Box	\$ 180.00	Based on Invoice	\$ 18.76	\$ 28.00
Insurance	\$ 398.12	Insurance on truck	\$ 41.50	\$ 61.94
Vehicle Repairs	\$ 584.31	Tune up on used vehicle purchased	\$ 60.91	\$ 90.91
Contract Labor	\$ 36,400.00	Bookkeeper 17.50/hour	\$ 3,794.39	\$ 5,663.09
Salaries Billing	\$ 19,760.00	Billing	\$ 2,059.81	\$ 3,074.25
FICA on Billing Staff	\$ 1,511.64	Calculated .0765	\$ 157.58	\$ 235.18
Salary President	\$ 60,000.00	Mike Smallridge Salary	\$ 6,254.49	\$ 9,334.76
	\$ 143,076.63		\$ 14,914.53	\$ 22,259.78
			11.75%	18.71%
Salaries Maintenance	\$ 22,880.00	Allocated nonbilling rate	\$ 2,688.49	\$ 4,280.77
FICA on Maintenance Staff	\$ 1,750.32	Calculated .0765	\$ 205.67	\$ 327.48
	\$ 167,706.95		\$ 17,808.81	\$ 26,868.22
Remove Costs Booked:				
603-Officers Salary			\$ 7,200.00	
631-Contract Service Professional			\$ 2,640.00	
635-Contract Service Testing			\$ 191.60	
636-Contract Service Other			\$ 4,868.52	
640-Rent			\$ 667.08	
650-Transportation			\$ 54.08	
655-Insurance			\$ 3,149.46	
675-Miscellaneous			\$ 871.70	
681-Telephone			\$ (50.00)	
			\$ 19,592.44	
Net Decrease to Expenses			\$ (1,783.63)	

Finding 9: Bad Debt Expense

Audit Analysis: The Utility had \$9,147.69 of past due accounts receivable as of November 1, 2012. Accounts over sixty days past due totaled \$4,459.55 or 49% of the accounts receivable balance. The Utility's tariff does allow for the offset of a past due balance with a customer's deposit.

Customer deposits as of January 24, 2013, totaled \$1,716.80, which is not adequate to cover the Utility's past due balance on an ongoing basis. With proper management and the implementation and enforcement of an aggressive bad debt policy, Bad Debt Expense should become more manageable. Therefore, we did not adjust the \$640 of Bad Debt Expense included in expenses and deferred this issue to the Analyst.

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

Effect on the Staff Prepared Exhibits: This finding is for informational purposes only.

Finding 10: Transportation Expense

Audit Analysis: According to Mr. Smallridge, he does not charge his personal gasoline or transportation to the Utility. The expense only relates to the gasoline for the maintenance truck. Since the maintenance employee services all the plants, except Lake Forest and East Marion, his transportation costs should be recorded in all the Utilities except Lake Forest and East Marion.

Because Mr. Smallridge is the receiver of Bimini Bay and Four Points, he bills the Court based on miles. We obtained the transportation costs recorded in each Utility's general and are outlined in Table 9. Based on these costs, it does not appear that transportation expenses were reasonably allocated.

Table 10-1

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

Actual costs were then compared to a customer allocation in Table 9-2. A customer allocation does not appear to be reasonable both because the mileage to the plants vary, and the wastewater plants probably involve more site visits than water plant. The staff engineer should determine a more reasonable allocation based on frequency. The expense of \$1,432.96 was not adjusted.

Table 10-2

	TY Expense	% Charged	Customers	% Customers	Allocate Based on Customers
Alturas Utilities		0%	59	4.78%	\$ 397.33
Bimini Bay Utilities		0%	201	16.29%	\$ 1,353.62
Four Points Utilities	\$ 544.00	7%	258	20.91%	\$ 1,737.48
Pinecrest Utilities	\$ 1,432.96	17%	145	11.75%	\$ 976.49
Sunrise Utilities	\$ 214.18	3%	259	20.99%	\$ 1,744.21

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

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

Finding 11: Taxes Other Than Income

Audit Analysis: The Utility paid a property tax bill of \$680.87 for parcel identification number 263006-692941-000900. According to the Polk County Property appraiser records, the property associated with that parcel identification is not owned by the Utility. Based on our tour of the Utility, the property on which the tax was paid does not appear to contain any Utility property. Records indicate that the parcel belongs to D Lanter Goodin, LLC.

The property that does belong to the Utility has a parcel identification number of 263006-692940-000510. That property tax bill is for \$3.07, was not recorded in the Utility's books, and has not been paid.

We provided a map of the property, that the \$680.87 of taxes were paid for, to Mr. Smallridge and asked how this property related to the Utility. He did not believe there was any relation to the Utility and thought it may have to do with a right-of-way issue. He planned to meet with the County representatives to determine why he was being taxed for the property. The \$680.87 in property taxes was removed from expense.

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

Effect on the Filing: Taxes Other Than Income were reduced by \$680.87.

Exhibits

Exhibit 1: Rate Base Water

**Pinecrest Utilities, LLC
Rate Base
Docket 120269-WU
As of September 30, 2012**

Account Description	Balance 9/30/2011	Balance 9/30/2012	Average Balance	Staff Adjs.	Rate Base Per Staff	Proforma Adjs.	Adj. TY Balance
Land	\$ 6,500.00	\$ 6,500.00	\$ 6,500.00	\$ -	\$ 6,500.00	\$ -	\$ 6,500.00
Plant	\$ 210,062.60	\$ 219,253.72	\$ 214,658.16	\$ -	\$ 214,658.16	\$ (6,498.05)	\$ 208,160.11
Accumulated Dep.	\$ (107,209.00)	\$ (107,209.00)	\$ (107,209.00)	\$ (6,054.33)	\$ (113,263.33)	\$ 605.74	\$ (112,657.59)
CIAC	\$ (100,351.00)	\$ (100,351.00)	\$ (100,351.00)	\$ -	\$ (100,351.00)	\$ -	\$ (100,351.00)
Accumulated Amort.	\$ 68,020.00	\$ 68,020.00	\$ 68,020.00	\$ 2,104.00	\$ 70,124.00	\$ -	\$ 70,124.00
Working Capital	\$ 1,111.30	\$ 3,759.91	\$ 2,435.61		\$ 5,438.19		\$ 5,484.24
Total Rate Base	\$ 78,133.90	\$ 89,973.63	\$ 84,053.77	\$ (3,950.33)	\$ 83,106.02	\$ (5,892.31)	\$ 77,259.76

Exhibit 2: Adjustments to Rate Base Water

**Pinecrest Utilities, LLC
Rate Base Adjustments
Docket 120269-WUAs of September 30, 2012**

Account	Average Test Year	Average Proforma	Finding
Plant		\$1,501.95	Finding 8
		(\$8,000.00)	Finding 8
		(\$6,498.05)	
Accumulated Depreciation	(\$6,054.33)		Finding 1
Accumulated Depreciation		\$833.50	Finding 8
Accumulated Depreciation		(\$227.76)	Finding 8
Total Accumulated Depreciation	(\$6,054.33)	\$605.74	
Accumulated Amortization	\$2,104.27		Finding 2

Exhibit 3: Capital Structure

**Pinecrest Utilities, LLC
Capital Structure
Docket 120269-WU
As of September 30, 2012**

Capital Components	Staff Adj. Balance	% of Components	Rate Base	% of Rate Base	Rate	Composite Rate
Long Term Debt	\$ 85,091.55	111.35%	\$ 85,599.38	110.79%	6.27%	6.95%
Equity	\$ (8,671.87)	-11.35%	\$ (8,723.62)	-11.29%	16.37%	-1.85%
Total Equity and Debt	\$ 76,419.68	100.00%	\$ 76,875.76			
Customer Deposits	\$ 384.00		\$ 384.00	0.50%	6%	0.03%
Total	\$ 76,803.68		\$ 77,259.76	100.00%		5.13%

Without Negative Equity

Capital Components	Staff Adj. Balance	% of Components	Rate Base	% of Rate Base	Rate	Composite Rate
Long Term Debt	\$ 85,091.55	99.55%	\$ 76,875.76	99.50%	6.27%	6.24%
Customer Deposits	\$ 384.00	0.45%	\$ 384.00	0.50%	6%	0.03%
Total	\$ 85,475.55	100.00%	\$ 77,259.76	100.00%		6.27%