

State of Florida



Public Service Commission

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

Auditor's Report

CHC VII, Ltd.
Staff-Assisted Rate Case

Twelve Months Ended June 30, 2013

Docket No. 130210-WS
Audit Control No. 13-252-2-2
November 7, 2013

A handwritten signature in black ink, appearing to read "Linda Hill-Slaughter".

Linda Hill-Slaughter
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Tomer Kopelovich
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Intesar Terkawi
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Jeffery A. Small
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 September 4, 2013. We have applied these procedures to the attached schedules prepared by the audit staff in support of CHC VII, Ltd.'s request for a Staff Assisted Rate Case in Docket No.130210-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

Background

Definitions

- Utility refers to the water and wastewater facilities owned and operated by CHC VII, Ltd.
- Company refers to CHC VII, Ltd., the owner and operator of the Utility and the two mobile home parks.
- Parent refers to Century Realty Funds, Inc., the parent company of CHC VII, Ltd.
- Test Year refers to the twelve months ended June 30, 2013.
- Prior Test Year refers to the twelve months ended December 31, 2006.
- OCS refers to the Commission staff engineer's Original Cost Study of the Utility's rate base balances as of December 31, 2006, that was completed in 2007 in Docket No. 070415-WS.
- Technical Staff Report refers to the preliminary staff report dated December 13, 2007, which has not been codified in a Commission Order.
- NARUC refers to the National Association of Regulatory Commissioners.
- USOA refers to the NARUC Uniform System of Accounts as adopted by Commission Rule 25-30.115 – Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code. (F.A.C.)

Company Background

CHC VII, Ltd. is a Class C water and wastewater utility which serves approximately 869 water and wastewater customers. The Utility is located in Polk County and is part of the Southwest Florida Water Management District. The Utility serves the Swiss Golf and Tennis Club Mobile Home Park and the Hidden Golf Club Mobile Home Park. Both communities are located on Lake Alfred.

The Company owns the land on which the mobile park communities reside. Lot rental fees include the residential water and wastewater base facility charges and are collected by the Company from each resident on a monthly basis. Residential usage charges are billed directly by the company and are collected quarterly. The general service water and wastewater charges for the common areas are billed and collected quarterly by the Company.

Polk County came under the Commission's jurisdiction on July 11, 1996. The Commission subsequently granted grandfather Certificates Nos. 609-W and 525-S to CHC VII in 1999. Rate base was not established for the Utility.

The Utility applied for a Staff-Assisted Rate Case (SARC) on July 16, 2007. Docket No. 070415-WS was opened with a test year of twelve months ended December 31, 2006. The audit report issued in that docket (ACN No. 07-233-2-2) disclosed that there was no support for the original cost of the plant and provided additional audit adjustments. An OCS was conducted by the Engineering Division for the prior test year and a Technical Staff Report was issued which included the OCS and audit adjustments. However, the Utility withdrew its rate case application prior to a Commission Order being issued. Therefore, balances for Rate Base have not been codified in a Commission Order. Audit staff used the balances as of December 31, 2006, per the

Technical Staff Report at the request of current technical Commission staff to determine the Utility's Rate Base balance as of June 30, 2013.

The Parent is a real estate development firm with a specialty in the development of senior mobile home parks. The Parent owns and operates a total of five utilities, all of which are under the Commission's jurisdiction. All utilities owned are in Polk County and serve senior mobile home park communities. The Parent allocates a portion of its operating costs to the utilities they own based on the number of mobile home rental lots in each community.

General

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 Commissioners' (NARUC) Uniform System of Accounts (USOA) and maintained separate affiliate company's records.

Procedures: We reviewed the Utility's books and records and determined that they are in compliance with the NARUC USOA.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether Utility Plant in Service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, 3) Retirements are made when a replacement asset was put in service, 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records, and is 5) Recorded in compliance with the NARUC USOA.

Procedures: We obtained the beginning balances for water and wastewater UPIS as of December 31, 2006, as reflected in the Technical Staff Report. We scheduled UPIS activity from January 1, 2007, through June 30, 2013. We traced asset additions and retirements to supporting documentation and to the general ledger. We determined the year end and simple average UPIS balance as of June 30, 2013. We reviewed supporting documentation for assets acquired subsequent to the test year. Our recommended adjustments to UPIS are discussed in Findings 1 and 2. The discussion of assets acquired subsequent to the test year is in Finding 12.

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 agreement, 3) Recorded in compliance with the NARUC USOA, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We obtained the beginning balances for water and wastewater Land as of December 31, 2006, as reflected in the preliminary Staff Report. We searched the Polk County Clerk of Court's official records for activity related to purchases or sales of utility land. We traced Land balances to the trial balance. We determined the year end and simple average Land balances as of June 30, 2013. Our recommended adjustments to Land are discussed in Finding 3.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether Contributions-in-Aid-of-Construction (CIAC): 1) Consists of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission approved tariffs, 3) Retirements are recorded when a contributed asset was replaced, 4) Adjustments required in the Utility's last rate proceeding were recorded to its books and records, and is 5) Recorded in compliance with the NARUC USOA.

Procedures: We obtained the beginning balances for water and wastewater CIAC as of December 31, 2006, as reflected in the Technical Staff Report. We determined whether an account was established for CIAC by reviewing the Utility's general ledger. We verified that no activity occurred from January 1, 2007, through June 30, 2013, by questioning utility management and reviewing the Company's 2011 and 2012 Federal Tax Returns. We determined the year end and simple average CIAC balances as of June 30, 2013. Our recommended adjustments to CIAC are discussed in Finding 4.

Accumulated Depreciation

Objectives: The objectives were to determine whether Accumulated Depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 - Depreciation, F.A.C., 2) Retirements are recorded when an asset was replaced, 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records, and is 4) Recorded in compliance with the NARUC USOA.

Procedures: We obtained the beginning balances for water and wastewater Accumulated Depreciation as of December 31, 2006, as reflected in the Technical Staff Report. We recalculated depreciation accruals for each UPIS account to verify that the correct depreciation rates were used. We determined whether retirements were made when a capital asset was removed or replaced. We recalculated and determined the year end and simple average Accumulated Depreciation balances as of June 30, 2013. Our recommended adjustments to Accumulated Depreciation are discussed in Finding 5.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether Accumulated Amortization of CIAC: 1) Accruals are properly calculated and recorded based on Rule 25-30.140-Depreciation, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records, and is 4) Recorded in compliance with the NARUC USOA.

Procedures: We obtained the beginning balances for water and wastewater Accumulated Amortization of CIAC as of December 31, 2006, as reflected in the Technical Staff Report. We recalculated the amortization accruals for CIAC using the depreciation rate as required by Commission rule. We determined the year end and simple average Accumulated Amortization of CIAC balances as of June 30, 2013. Our recommended adjustments to Accumulated Amortization of CIAC are discussed in Finding 4.

Working Capital

Objective: The objective was to determine the Working Capital adjustment to be included in Rate Base based on Rule 25-30.433 – Rate Case Proceedings, F.A.C.

Procedures: We calculated the Working Capital adjustment for the test year ended June 30, 2013, using one-eighth of Operation and Maintenance (O&M) Expense as required by Commission rule. Our recommended amount for the Working Capital adjustment is discussed in Finding 8.

Capital Structure

Objectives: The objectives were to determine the: 1) Components of the Utility’s capital structure, 2) Cost rate for each class of capital, 3) Overall weighted cost of capital, and that 4) Components are properly recorded in compliance with the NARUC USOA.

Procedures: We scheduled the Utility's Capital Structure using information extracted from the Company’s federal tax returns and general ledger. We determined that the Utility's Capital Structure is composed of Long Term debt. We determined the year end and simple average Capital Structure balances and its weighted average cost as of June 30, 2013. Our recommended adjustments to Capital Structure and its related cost rate are discussed in Finding 6.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether Revenues are: 1) Representative of the Utility’s operations for the test year, 2) Calculated using Commission approved tariff rates, and 3) Recorded in compliance with the NARUC USOA.

Procedures: We obtained the Utility’s quarterly billing registers and summarized the billing and usage data for the test year by meter size to develop a billing determinant report. We obtained the monthly tenant listing and agreed Revenues transferred by the Company to the general ledger. We recalculated test year Revenues based on consumption data and billing determinants using the Utility’s authorized tariff rates. We identified those customers not properly billed for utility services. Our recommended adjustments to Operating Revenue are discussed in Finding 7.

Operation and Maintenance Expense

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

Procedures: We reviewed all invoices for the Utility's O&M Expense for the test year. We traced each invoice to the detailed general ledger. We ensured all expenses were correctly classified, and verified that they were recurring in nature. We verified each expense against the invoice and supporting documentation. We reviewed all available contracts and test checked billings for agreement. We verified payroll expense and the current allocation. We reviewed the Parent's allocations among the five utilities for payroll, corporate general and administrative services and management fees. We provided copies of all direct and allocated contractual services invoices for Analyst review. Our recommended adjustments to O&M Expense are discussed in Finding 8. The discussion of payroll and corporate overhead allocations for the test year are discussed in Finding 9.

Depreciation Expense and CIAC Amortization Expense

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

Procedures: We calculated the Utility's Depreciation Expense and CIAC Amortization Expense for the test year ended June 30, 2013, using the rates established by Rule 25-30.140 - Depreciation, F.A.C. Our recommended adjustments to Depreciation and Amortization Expenses are discussed in Finding 10.

Taxes Other than Income

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

Procedures: We developed a schedule for the Utility's TOTI Expense for the test year. We included property taxes and Regulatory Assessment Fees (RAF) for the test year, confirmed their utility classification, verified their recurring nature and traced them to original source documentation. We recalculated RAFs based on test year Revenues. Our recommended adjustments to TOTI are discussed in Finding 11.

Audit Findings

Finding 1: Utility Plant in Service –Technical Staff Report Adjustments

Audit Analysis: Utility records reflect UPIS water and wastewater balances as of December 31, 2006, of \$458,370 and \$1,512,011, respectively. Commission Staff determined water and wastewater UPIS balances of \$362,389 and \$521,496, respectively, in Docket No. 070415-WS using the OCS balances and prior audit adjustments that increased water and wastewater UPIS by \$8,173 and \$7,020, respectively, as of December 31, 2006. The Utility withdrew its rate case application prior to a Commission Order being issued. The OCS and prior audit adjustments reduced UPIS by \$95,980 and \$990,515 for water and wastewater, respectively. Adjustments are detailed in Tables 1-1 and 1-2.

Table 1-1

Water UPIS					
NARUC Acct. No.	Acct. Description	Per Utility 12/31/06	OCS Adjustments	Prior Audit Adjustments	Balance 12/31/06
301	Organization	\$500	(\$500)	\$0	\$0
302	Franchises	2,036	(2,036)	0	0
304	Structures	19,700	(11,700)	0	8,000
307	Wells & Spring	20,546	(13,064)	0	7,482
309	Supply Mains	19,411	(19,411)	0	0
310	Power Generation Equipment	13,773	(13,773)	0	0
311	Pumping Equipment	0	83,274	0	83,274
320	Water Treatment Equipment	6,446	154	0	6,600
330	Storage Tank	10,241	24,866	0	35,107
331	Trans & Dist. Mains - Pipes	148,686	26,924	0	175,610
333	Service to Customers	67,693	(67,693)	0	0
334	Meters	130,001	(128,566)	8,173	9,608
335	Fire Hydrant	18,715	17,993	0	36,708
341	Transportation Equipment	0	0	0	0
343	Tool, Shop & Garage Equip	622	(622)	0	0
347	Miscellaneous Equipment	0	0	0	0
		\$458,370	(\$104,153)	\$8,173	\$362,389
		(\$95,980)			

Finding 1 (cont'd)

Table 1-2

Wastewater UPIS		Per Utility	OCS	Prior Audit	Balance
NARUC	Acct. Description	12/31/06	Adjustments	Adjustments	12/31/06
351	Organization	\$400	(\$400)	\$0	\$0
352	Franchises	2,292	(2,292)	0	0
354	Structures	50,863	(50,863)	0	0
360	Collection Sewers-Force	0	0	4,669	4,669
361	Collection Sewers-Gravity	342,408	5,127	0	347,535
362	Special Collecting Structure	0	0	0	0
363	Services to Customers	82,700	(82,700)	0	0
364	Flow Measuring Devices	0	2,900	2,351	5,251
365	Flow Measuring Install	0	0	0	0
370	Receiving Wells	0	78,000	0	78,000
371	Pumping Equipment	300,198	(300,198)	0	0
380	Treatment/Disposal Equip.	693,086	(607,045)	0	86,041
381	Plant Sewers	40,064	(40,064)	0	0
389	Other Plant and Misc. Equip.	0	0	0	0
390	Office Equipment & Furniture	0	0	0	0
391	Transportation Equipment	0	0	0	0
393	Tools Shop and Garage Equip.	0	0	0	0
395	Power Operated Equip.	0	0	0	0
398	Other Tangible Plant	0	0	0	0
		\$1,512,011	(\$997,535)	\$7,020	\$521,496
		(\$990,515)			

Effect on the General Ledger: The following entry is needed to correct the general ledger as of June 30, 2013. The individual account adjustments are detailed in each table.

Acct.	Account Description	Debit	Credit
101	UPIS - Water		\$95,980
101	UPIS - Wastewater		\$990,515
	To be determined by the Utility	\$1,086,495	

Does not include the corresponding effect of adjustments to Accumulated Depreciation and Depreciation Expense.

Effect on Staff's Exhibits: Reduce water and wastewater UPIS by \$95,980 and \$990,515, respectively, for the test year. The corresponding effect on Accumulated Depreciation and test year Depreciation Expense are described in Findings 5 and 10.

Finding 2: Utility Plant in Service Plant - Current Docket

Audit Analysis: The Utility made several additions to both the water and wastewater plant accounts from January 1, 2007, through June 30, 2013. Many of the additions were asset replacements that should have included a corresponding retirement amount. Additionally, several wastewater plant asset purchases made during the test year were erroneously expensed in Account No. 720 – Materials and Supplies. One plant asset addition belonged to another utility of the Parent. Adjustments are detailed in Table 2-1.

Table 2-1

Acct	Acct. Description	Year	Utility		Audit		Audit Adjustments		
			Addition	Retire	Addition	Retire	Addition	Retire	
311	Pumps	2008	\$16,492	\$0	\$16,492	(\$12,369)	\$0	(\$12,369)	a
311	Pumps	2009	71,500	0	71,500	(35,107)	0	(35,107)	b
							<u>\$0</u>	<u>(\$47,476)</u>	
364	Flow Measuring	2008	\$2,057	\$0	\$0	\$0	(\$2,057)	\$0	c
364	Flow Measuring	2008	3,724	0	3,724	(5,251)	0	(5,251)	b
364	Flow Measuring	2013	0	0	2,095	(3,724)	2,095	(3,724)	a d
371	Pumping Equipment	2013	0	0	1,044	(783)	1,044	(783)	a d
380	Treatment & Disp.	2012	2,849	0	2,849	(2,137)	0	(2,137)	a
389	Other Plant & Equip.	2013	0	0	1,781	0	1,781	0	d
							<u>\$2,863</u>	<u>(\$11,895)</u>	

- a Retirement calculated as 75 percent of replacement cost.
- b Retirement equals known original cost of asset replaced.
- c Remove addition that belongs to other utility operation.
- d Reclassified from O&M Expense

Effect on the General Ledger: The following entry is needed to correct the general ledger as of June 30, 2013.

Acct.	Account Description	Debit	Credit
311	Pumps		\$47,476
364	Flow Measuring Devices		\$8,937
371	Pumping Equipment	\$261	
380	Treatment Disposal		\$2,137
389	Other Plant & Equipment	\$1,781	
	To be determined by the Utility	\$56,508	

Does not include the corresponding effect of adjustments to Accumulated Depreciation and Depreciation Expense.

Effect on Staff's Exhibits: Reduce water and wastewater UPIS by \$47,476 and \$9,032 (\$11,895 - \$2,863), respectively, for the test year. The corresponding effect on Accumulated Depreciation and test year Depreciation Expense are described in Findings 5 and 10.

Finding 3: Land and Land Rights

Audit Analysis: Utility records reflect water and wastewater Land balances as of December 31, 2006, of \$11,313 and \$18,166, respectively. Commission Staff determined water and wastewater Land balances of \$3,165 and \$5,082, respectively, in Docket No. 070415-WS, using the prior staff audit report balances as of December 31, 2006. The Utility withdrew its rate case application prior to a Commission Order being issued.

The prior staff audit report adjustments reduced Land by \$8,149 and \$13,084 for water and wastewater, respectively. Adjustments are detailed in Table 3-1.

Table 3-1

Warranty Deed	Purchase Price	Estimated Acres	Price Per Acre	Utility Acres	Utility Land Value
OR Bk 2299/Pg 1577	\$1,500,000	237	\$6,329	1.303	\$8,247
Description of Land Use	Utility Acres	Price Per Acre	Water	Wastewater	
Water Plant Site	0.500	\$6,329	\$3,165	\$0	
Wastewater Plant Site	<u>0.803</u>	6,329	<u>0</u>	<u>5,082</u>	
Per Audit	1.303		\$3,165	\$5,082	
Per Utility			<u>11,313</u>	<u>18,166</u>	
Audit Adjustment			(\$8,149)	(\$13,084)	

Effect on the General Ledger: The following entry is needed to correct the general ledger as of June 30, 2013.

Acct.	Account Description	Debit	Credit
303	Land - Water		\$8,149
353	Land - Wastewater		\$13,084
	To be determined by the Utility	\$21,233	

Effect on Staff's Exhibits: Reduce water and wastewater Land balances by \$8,149 and \$13,084, respectively, for the test year.

Finding 4: Contributions-in-Aid-of-Construction and Accumulated Amortization of CIAC

Audit Analysis: The Utility records do not include CIAC or Accumulated Amortization of CIAC balances for water and wastewater as of December 31, 2006. Commission Staff determined water and wastewater CIAC balances of \$175,610 and \$347,535, and Accumulated Amortization of CIAC balances of \$94,681 and \$178,112, respectively, in Docket No. 070415-WS using the OCS balances as of December 31, 2006. The Utility withdrew its rate case application prior to a Commission Order being issued.

The OCS adjustments increased CIAC by \$175,610 and \$347,535 and Accumulated Amortization of CIAC by \$94,681 and \$178,112 for water and wastewater, respectively.

There were no changes to the CIAC balances since they were established in the OCS. We calculated annual CIAC Amortization Expense through the test year. Water and wastewater Accumulated Amortization of CIAC increase by \$34,643 to \$129,324 and by \$65,160 to \$243,272, respectively, as of June 30, 2013.

Effect on the General Ledger: The following entry is needed to adjust the general ledger as of June 30, 2013.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
272	Accumulated Amortization - Water	\$129,324	
272	Accumulated Amortization - Wastewater	\$243,272	
271	Contributions in Aid of Construction - Water		\$175,610
271	Contributions in Aid of Construction - Wastewater		\$347,535
	To be determined by the Utility.	\$150,549	

Effect on Staff's Exhibits: Increase water and wastewater CIAC by \$175,610 and \$347,535, respectively, and increase water and wastewater Accumulated Amortization of CIAC by \$129,134 and \$243,272, respectively, for the test year. The corresponding effect on test year Amortization Expense is included in calculations described in Finding 10.

Finding 5: Accumulated Depreciation

Audit Analysis: Utility records reflect Accumulated Depreciation water and wastewater balances as of December 31, 2006, of \$323,677 and \$1,273,499, respectively. Commission Staff determined water and wastewater Accumulated Depreciation balances of \$240,243 and \$329,884, respectively as of December 31, 2006, in Docket No. 070415-WS using the OCS as of December 31, 2006, and prior audit adjustments that increased water and wastewater Accumulated Depreciation by \$240 and \$642, respectively. The Utility withdrew its rate case application prior to a Commission Order being issued

The OCS and prior audit adjustments were corrected by Audit Staff to remove excess depreciation accruals recorded in the OCS schedules. The corrected OCS adjustments reduced Accumulated Depreciation by \$85,085 and \$943,615 for water and wastewater, respectively.

The Utility's general ledger reflect balances for water and wastewater Accumulated Depreciation of \$391,733 and \$1,364,710, respectively, as of June 30, 2013. The review of utility records indicates that the rates prescribed by Rule 25-30.140 – Depreciation, F.A.C. were not used by the Utility to depreciate UPIS. Based on this issue and our adjustments to UPIS discussed in Findings 1 and 2, we have recalculated the Utility's Accumulated Depreciation balances for the period January 1, 2007, through June 30, 2013.

Water and wastewater Accumulated Depreciation balances are reduced by \$130,722 to \$261,014 and by \$963,567 to \$401,625, respectively. Adjustments are detailed in Tables 5-1 and 5-2.

Table 5-1

		Water System		
NARUC		Per Utility		Per Audit
Acct. No.	Acct. Description	06/30/13	Adjustments	06/30/13
301	Organization	\$500	(\$500)	\$0
302	Franchises	1,137	(1,137)	0
304	Structures	22,646	(14,654)	7,992
307	Wells & Spring	20,153	(12,678)	7,474
309	Supply Mains	16,094	(16,094)	0
310	Power Generation Equip.	13,773	(13,773)	0
311	Pumping Equip.	4,849	70,905	75,754
320	Water Treatment Equip.	6,446	154	6,600
330	Storage Tank	8,219	447	8,666
331	Trans & Dist. Mains - Pipes	103,659	21,041	124,701
333	Service to Customers	51,279	(51,279)	0
334	Meters	130,001	(124,951)	5,050
335	Fire Hydrant	12,400	12,378	24,778
341	Transportation Equipment	0	0	0
343	Tool, Shop & Garage Equip	581	(581)	0
347	Miscellaneous Equipment	0	0	0
		\$391,736	(\$130,722)	\$261,014

Finding 5 (cont'd)

Table 5-2

Wastewater System			
NARUC		Per Utility	Per Audit
Acct. No.	Acct. Description	06/30/13	06/30/13
351	Organization	\$400	\$0
352	Franchises	1,481	0
354	Structures	40,633	0
360	Collection Sewers-Force	0	1,209
361	Collection Sewers-Gravity	226,843	234,586
362	Special Collecting Structure	0	0
363	Services to Customers	62,801	150
364	Flow Measuring Devices	5,781	210
365	Flow Measuring Install	0	0
370	Receiving Wells	0	78,000
371	Pumping Equipment	300,443	294
380	Treatment/Disposal Equip.	693,245	86,753
381	Plant Sewers	33,206	0
389	Other Plant and Misc. Equip.	0	62
390	Office Equipment & Furn.	0	0
391	Transportation Equipment	0	0
393	Tools Shop and Garage Equip.	0	0
395	Power Operated Equipment	0	0
398	Other Tangible Plant	0	0
	Total	\$1,364,832	\$401,265
	Unknown(a)	(122)	0
	Adjusted Total	\$1,364,710	\$401,265

(a) The unknown balance of \$122 represents the difference between the \$1,364,710 balance in the Trial Balance and the \$1,364,832 balance in the summary detail schedule provided by the Utility.

Effect on the General Ledger: The following entry is needed to correct the general ledger as of June 30, 2013. The individual account adjustments are detailed in each table.

Acct.	Account Description	Debit	Credit
108	Accumulated Depreciation - Water	\$130,722	
108	Accumulated Depreciation - Wastewater	\$963,445	
	To be determined by the Utility		\$1,094,167

Does not include the corresponding effect of adjustments to UPIS and Depreciation Expense.

Effect on Staff's Exhibits: Reduce water and wastewater Accumulated Depreciation by \$130,722 and \$963,567, respectively. The corresponding effect on test year Depreciation Expense is included in calculations described in Finding 10.

Finding 6: Capital Structure

Audit Analysis: The Utility does not have a Capital Structure separate from its Company. As noted in the definition section of this report, the Company (CHC VII, Ltd.) includes both the Utility and the two mobile home parks the Utility serves as one corporation. The Company's records reflect a Long Term Debt balance of \$46,423,502, as of June 30, 2013. The Company's 2012 Federal Tax Return reflects a negative equity balance of \$24,084,441, as of December 31, 2012. The Long Term Debt has an effective cost rate of 4.18%.

We set the equity balance to zero based on Commission Order No. PSC-08-0652-PAA-WS, issued October 6, 2008. Table 6-1 summarizes the Company's Capital Structure.

Table 6-1

CHC VII, Ltd.	Per Company	Adjustment	Per Audit
Account Description	6/30/2013		6/30/2013
Affiliate Payable	\$0	\$0	\$0
Long Term Debt	46,423,502	0	46,423,502
Common Equity	(24,084,441)	24,084,441	0
Customer Deposits	0	0	0
Total	\$22,339,061	\$24,084,441	\$46,423,502

Effect on General Ledger: None

Effect on Staff's Exhibits: The Utility's Capital Structure has been reconciled with our average Rate Base in Exhibit 1. The Utility's average Capital Structure and its weighted average cost are in Exhibit 2.

Finding 7: Operating Revenue

Audit Analysis: The Utility's records reflect test year Revenues of \$93,547 and \$90,067 for water and wastewater services. We reviewed the Utility's quarterly billing registers and recalculated a sample of customers bills. We determined that the Utility was not accurately applying its Commission approved tariff rate. The Revenue balances above do not accurately reflect the test year operations because of the following issues.

- The tariff states that the base fee is \$15.71 per month for water and wastewater services combined. This charge applies to all customers and all meter sizes.
- The Utility accurately splits the \$15.71 tariff between water and wastewater service for those customers with residential or general service meters. However, customers with an irrigation meter were charged the entire rate of \$15.71 rather than the water rate which is \$7.86. This error overstates water Revenues.
- The Utility accurately collects from its residential customers 12 months of base fees for water and wastewater services. However, the Utility's general service and irrigation customers are billed quarterly and thus are only charged the base fee for one month each quarter instead of a total of three months each quarter. This error understates water and wastewater Revenues.
- The Utility accurately calculates and bills its residential customers for quarterly water and wastewater consumption fees per its tariff. However, the Utility's general service customers consumption fees were recorded to water service and not split between water and wastewater services. This error overstates water Revenues and understates wastewater Revenues.

Because of the billing errors, we recalculated the Utility's water and wastewater Revenues using the water consumption information from the quarterly billing registers and the Utility's approved tariffs. Calculations increase water Revenues by \$716 to \$94,263 and increase wastewater Revenues by \$3,058 to \$93,125 for the test year.

The Utility disclosed that nine general service meters have not been read since 2007 and that Revenues have not been recorded since that time. Table 7-1 summarizes the location and size of each meter.

Table 7-1

<u>Meter Size</u>	<u>Description</u>	<u>Location</u>
5/8"	Common Area	Lot 929 Birdie
5/8"	Common Area	Lot 13
5/8"	Common Area	#10 Tee
5/8"	Common Area	Hydraulic Pump at Well
5/8"	Common Area	Lot #307 Put Cr (LS)
5/8"	Common Area	Lot #72 Greenv (LS)
2"	Common Area	#1 Green
2"	Common Area	#17 Marcen S. Irrigation
2"	Common Area	HG Clubhouse Irrigation

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

Effect on Staff's Exhibits: Increase water and wastewater Revenues by \$716 and \$3,058, respectively, for the test year. Audit Staff defers to the Analyst to impute the related test year Revenues associated with the nine unread meters.

Finding 8: Operations and Maintenance Expense

Audit Analysis: The Utility’s O&M account balances for water and wastewater for the test year are \$68,759 and \$144,255, respectively. A review of accounts indicate that a number of erroneous entries were made during the test year. Audited balances indicate that reductions in O&M Expense are needed of \$1,159 and \$5,396 for water and wastewater, respectively. Adjustments are detailed in Tables 8-1 and 8-2. Details to the adjustments are discussed following each table.

Table 8-1

Summary of Test Year Water O&M Adjustments

Acct. No.	Acct. Description	Per Utility	Adjustments	Per Audit
601	Salaries & Wages	\$1,470	\$4,342	\$5,812
604	Pension & Benefits	0	0	0
610	Purchased Water	0	0	0
615	Purchased Power	16,439	(62)	16,377
616	Fuel for Power Prod.	0	0	0
618	Chemicals	10,175	0	10,175
620	Material & Supplies	10,833	(1,623)	9,210
630	Contract - Billing	0	0	0
631	Contract - Prof. Fees	13,352	0	13,352
635	Contract - Testing	2,230	527	2,757
636	Contract - Other	5,197	(4,342)	855
640	Rents	0	0	0
650	Transportation Exp.	5,519	(558)	4,961
655	Insurance Expense	0	0	0
665	Regulatory Com. Exp.	0	0	0
670	Bad Debt Expense	509	0	509
675	Miscellaneous Exp.	3,036	556	3,592
		\$68,759	(\$1,159)	\$67,600

Account No. 601 – Salaries and Wages: We increased this account by \$4,342 to reclassify salary expense that was incorrectly recorded to Account No. 636.

Account No. 615 – Purchased Power: We reduced this account by \$62 to remove late fees paid by the Utility that are not recoverable in a rate case proceeding.

Account No. 620 - Material and Supplies: We reduced this account by \$1,623 to remove a \$1,098 invoice that was double booked, to reclassify \$527 of water testing invoices to Account No. 635, to reclassify \$31 of truck repairs to Account No. 650, and to reclassify costs of \$33 for Parent allocated material purchases from Account No. 650.

Account No. 635 – Testing: We increased this account by \$527 to reclassify costs from Account. No. 620.

Account No. 636 – Contract Other: We reduced this account to reclassify \$4,342 of salary expense to Account No. 601.

Finding 8 (cont'd)

Account No. 650 – Transportation: We reduced this account by \$558 to reclassify \$31 costs from Account No. 620, to reclassify \$33 of purchased materials to Account No. 620 and to reclassify \$556 of Parent allocated communication and licensing fees to Account No. 675.

Account No. 675 – Miscellaneous Cost: We increased this account by \$556 to reclassify costs from Account No. 650.

Table 8-2

Summary of Test Year Wastewater O&M Expense Adjustments				
Acct. No.	Acct. Description	Per Utility	Adjustments	Per Audit
701	Salaries & Wages	\$45,431	\$0	\$45,431
704	Pension & Benefits	0	0	0
710	Purchases WW Treatment	0	0	0
711	Sludge Removal Expense	21,999	0	21,999
715	Purchased Power	19,104	(448)	18,656
716	Fuel for Power Production	0	0	0
718	Chemicals	8,751	611	9,363
720	Material & Supplies	16,200	(5,354)	10,847
730	Contract - Billing	0	0	0
731	Contract - Prof. Fees	7,981	(482)	7,499
735	Contract - Testing	7,629	482	8,111
736	Contract - Other	5,780	0	5,780
740	Rents	0	0	0
750	Transportation Expense	5,669	(717)	4,952
755	Insurance Expense	4,707	0	4,707
765	Regulatory Commission Exp.	0	0	0
770	Bad Debt Expense	509	0	509
775	Miscellaneous Expense	495	511	1,006
		\$144,255	(\$5,396)	\$138,858

Account No. 715 – Purchased Power: We reduced this account by \$448 to remove a \$302 power bill that belongs to a different utility and to remove \$146 of late fees paid by the Utility that are not recoverable in a rate case proceeding.

Account No. 718 – Chemicals: We increased this account by \$611 to reclassify \$639 of costs from Account No. 720 and to remove \$28 of late fees paid by the Utility that are not recoverable in a rate case proceeding.

Account No. 720 – Materials and Supplies: We have reduced this account by \$5,354 to reclassify three capital invoice purchases totaling \$4,921 to Account Nos. 364, 371 and 389 which is discussed in Finding 2, to reclassify \$639 of chemicals to Account No. 718, to reclassify \$16 of fuel purchases to Account No. 750, and to reclassify \$221 of Parent allocated material purchases from Account No. 750

Finding 8 (cont'd)

Account No. 731 – Contract Professional: We have reduced this account by \$482 to reclassify water testing invoices to Account No. 735.

Account No. 735 – Contract Testing: We have increased this account by \$482 to reclassify water testing invoices to Account No. 735.

Account No. 750 - Transportation Expense; We reduced this account by \$717 to reclassify \$16 of costs from Account No. 720, to reclassify \$221 of purchased materials to Account No. 720, and to reclassify \$511 of Parent allocated communication and licensing fees to Account No. 775.

Account No. 775 - Miscellaneous Expense: We increased this account by \$511 to reclassify costs from Account No. 750.

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

Effect on Staff's Exhibits: Reduce water and wastewater O&M Expense by \$1,159 and \$5,396, respectively, for the test year. Additionally, the Utility's water and wastewater Working Capital adjustments for rate base purposes are \$8,450 and \$17,357, respectively. Working Capital was calculated as one-eighth of the audit determined O&M Expense based on Rule 25-30.433 – Rate Case Proceedings, F.A.C.

Finding 9: Payroll and Corporate Overhead Allocations

Audit Analysis: The Parent has indicated that the Utility's payroll expenses and corporate overhead allocations for the test year are incorrect. Adjustments to the general ledgers for the test year will be made by the Parent to restate costs for all the Parent's water and wastewater operations. The annualized impact will increase operating expenses for the test year expenses for water and wastewater by \$50,125 and \$25,704, respectively.

The major differences in the new allocation methodology is how payroll dollars are allocated. Previously, payroll dollars were not split equitably between water and wastewater plants. Now both plants share in the direct payroll costs of all personnel assigned to specific facilities, in addition to a percent of indirect costs such as a percent of the salaries for park managers.

The Parent's corporate overhead allocations are currently allocated across all five utilities. The basis is a combination of a percent of staff's salaries attributable to the management of the utilities and the number of mobile home rental spaces each utility has.

A management fee will be charged to all utilities. This fee is to be in addition to the payroll expenses and corporate overhead allocations. The fee will be a flat six percent of total Revenues. Details were not provided for the purpose, methodology or the basis for the six percent charge.

Effect on the General Ledger: For informational purposes only.

Effect on Staff's Exhibits: If the Analyst should determine that these costs are appropriate, O&M Expense on Staff's Exhibit 3 would increase by \$50,125 and \$25,704 for water and wastewater, respectively.

Finding 10: Depreciation and Amortization Expenses

Audit Analysis: The Utility's records reflect test year Depreciation Expense of \$12,347 and \$15,755 for water and wastewater, respectively. Amortization Expenses for CIAC for water and wastewater have never been recorded on the Utility's books.

With the discussion of plant and CIAC in Findings 1, 2 and 4, Table 10-1 summarizes the related adjustments needed for test year Depreciation and Amortization Expenses.

Table 10-1

Acct. No.	Account Description	Per Utility 6/30/2013	Audit Adjustment	Per Audit 6/30/2013
403	Depreciation Expense - Water	\$12,347	(\$2,620)	\$9,727
406	Amortization Expense - Water	<u>0</u>	<u>(4,619)</u>	<u>(4,619)</u>
	Net Water	\$12,347	(\$7,239)	\$5,108
403	Depreciation Expense - Wastewater	\$15,755	(\$6,374)	\$9,381
406	Amortization Expense - Wastewater	<u>0</u>	<u>(8,688)</u>	<u>(8,688)</u>
	Net Wastewater	\$15,755	(\$15,062)	\$693

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

Effect on Staff's Exhibits: Reduce net water and wastewater Depreciation Expense by \$7,239 and \$15,062, respectively, for the test year.

Finding 11: Taxes Other than Income

Audit Analysis: The Utility’s records reflect water and wastewater TOTI Expenses of \$5,291 and \$5,795, respectively, for the test year. The amounts represent the Utility’s Regulatory Assessment Fee (RAF) payments and property taxes for 2012.

Finding 7 determined water and wastewater Revenues of \$94,263 and \$93,125 for the test year. RAF expenses due on these amounts are \$4,242 and \$4,191, respectively. The total adjustments for water and wastewater TOTI Expenses are displayed below.

Table 11-1

<u>Description</u>	<u>Test Year Water</u>			<u>Test Year Wastewater</u>		
	<u>Per Utility</u>	<u>Adjustment</u>	<u>Per Audit</u>	<u>Per Utility</u>	<u>Adjustment</u>	<u>Per Audit</u>
Property Tax	\$1,051	\$0	\$1,051	\$1,689	\$0	\$1,689
RAF	<u>4,240</u>	<u>2</u>	<u>4,242</u>	<u>4,106</u>	<u>85</u>	<u>4,191</u>
Total	\$5,291	\$2	\$5,293	\$5,795	\$85	\$5,880

RAF is calculated as 4.50 % of utility revenues.

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

Effect on Staff’s Exhibits: Reduce water and wastewater TOTI Expense by \$2 and \$85, respectively, for the test year.

Finding 12: Proforma Plant

Audit Analysis: The Utility purchased a master water meter for the water plant in September 2013 at a cost of \$2,261. This item and its related retirement and depreciation are not included in the water Rate Base exhibit. The Utility plans to purchase a chlorinator later this year. Estimates for the chlorinator were not provided.

Effect on the General Ledger: For informational purposes.

Effect on Staff's Exhibits: None

Exhibits

Exhibit 1: Rate Base

**CHC VII, Ltd.
Rate Base As of June 30, 2013
Docket No. 130210-WS**

Water

<u>Description</u>	<u>Per Utility @06/30/2013</u>	<u>Adjustments</u>	<u>Per Audit. @06/30/2013</u>	<u>Simple Average</u>
Utility Plant In Service	\$546,362	(\$143,457)	\$402,905	\$402,905
Land and Land Rights	11,313	(8,148)	3,165	3,165
CIAC	0	(175,610)	(175,610)	(175,610)
Amortization of CIAC	0	129,324	129,324	127,014
Accumulated Depreciation	(391,733)	130,722	(261,011)	(256,151)
Working Capital	0	8,450	8,450	8,450
Net Rate Base	\$165,942	(\$58,719)	\$107,223	\$109,773

Wastewater

<u>Description</u>	<u>Per Utility @06/30/2013</u>	<u>Adjustments</u>	<u>Per Audit. @06/30/2013</u>	<u>Simple Average</u>
Utility Plant In Service	\$1,523,928	(\$999,547)	\$524,381	\$526,352
Land and Land Rights	18,166	(13,084)	5,082	5,082
CIAC	0	(347,535)	(347,535)	(347,535)
Amortization of CIAC	0	243,272	243,272	238,928
Accumulated Depreciation	(1,364,710)	963,445	(401,265)	(398,035)
Working Capital	0	17,357	17,357	17,357
Net Rate Base	\$177,384	(\$136,092)	\$41,292	\$42,149

Exhibit2: Capital Structure

**CHC VII, Ltd.
Capital Structure
As of June 30, 2013
Docket No. 130210-WS**

Capital Component	Per Utility @06/30/2013	Adjustments	Per Audit @06/30/2013	Prorata Adjustments			Ratio	Cost	Weighted Cost
				Adjustment	Ratio	Balance (b)			
Affiliate Payable	\$0	\$0	\$0	\$0	0.00%	\$0	0.00%	0.00%	0.00%
Long Term Debt	46,423,502	0	46,423,502	(46,271,580)	100.00%	\$151,922	100.00%	4.18%	4.18%
Common Equity (a)	(24,084,441)	24,084,441	0	\$0	0.00%	\$0	0.00%	8.74%	0.00%
Customer Deposits	0	0	0	0	0.00%	0	0.00%	0.00%	0.00%
Total Capital	\$22,339,061	\$24,084,441	\$46,423,502	(\$46,271,580)	100.00%	\$151,922	100.00%		4.18%

(a) Parent's Equity balance as of 12/31/2012.

(b) Capital Structure was reconciled to the total average average rate base.

<u>Water</u>	<u>W/Water</u>	<u>Total</u>
\$109,773	\$42,149	\$151,922

Exhibit 3: Net Operating Income

CHC VII, Ltd.
Net Operating Income
Test Year Ended June 30, 2013
Docket No. 130210-WS

Description	Water		Per Audit. @06/30/2013
	Per Utility @06/30/2013	Adjustments	
Revenues	\$93,547	\$716	\$94,263
Operation & Maintenance Expense	68,759	(1,159)	67,600
Depreciation Expense	12,347	(2,620)	9,727
CIAC Amortization Expense	0	(4,619)	(4,619)
Taxes Other Than Income	5,291	2	5,293
Provision for Income Tax Expense*	0	0	0
Operating Expense	<u>\$86,397</u>	<u>(\$8,396)</u>	<u>\$78,001</u>
Net Operating Income/(Loss)	<u>\$7,150</u>	<u>\$9,112</u>	<u>\$16,262</u>

Description	Wastewater		Per Audit. @06/30/2013
	Per Utility @06/30/2013	Adjustments	
Revenues	\$90,067	\$3,058	\$93,125
Operation & Maintenance Expense	144,255	(5,396)	138,858
Depreciation Expense	15,755	(6,374)	9,381
CIAC Amortization Expense	0	(8,688)	(8,688)
Taxes Other Than Income	5,794	85	5,879
Provision for Income Tax Expense*	0	0	0
Operating Expense	<u>\$165,804</u>	<u>(\$20,373)</u>	<u>\$145,430</u>
Net Operating Income/(Loss)	<u>(\$75,737)</u>	<u>\$23,431</u>	<u>(\$52,305)</u>

*The Utility files IRS Form 1065 U. S. Return of Partnership Income.