

State of Florida



Public Service Commission

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

Auditor's Report

Little Gasparilla Water Utility, Inc.
Staff-Assisted Rate Case

September 30, 2013

Docket No. 130265-WU
Audit Control No. 13-344-4-1

February 5, 2014

A handwritten signature in blue ink, appearing to read "Yen N. Ngo".

Yen N. Ngo
Audit Manager

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Gabriela M. Leon
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Iliana H. Piedra
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 December 6, 2013. We have applied these procedures to the attached schedules prepared by the audit staff in support of Little Gasparilla Water Utility, Inc.'s request for a Staff-Assisted Rate Case in Docket No.130265-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

Background

Definitions

- Utility or LGWU refers to the water facility owned and operated by Little Gasparilla Water Utility, Inc.
- Utility Test Year refers to the twelve months ended September 30, 2013.
- NARUC refers to the National Association of Regulatory Utility Commissioners.
- Commission or PSC refers to Florida Public Service Commission.
- 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.)

Utility Background

Little Gasparilla Water Utility, Inc. is a Class C water utility which serves Little Gasparilla Island located in Charlotte County. The Utility bills its customers quarterly.

LGWU has been in operation since 1986 and was sold to its present owner in 1999. The Utility was granted an original certificate in Order No. PSC-01-0992-PAA-WU, issued April 20, 2001. Effective September 25, 2007, the PSC's jurisdiction was rescinded by Charlotte County, and the Utility's certificate was cancelled as shown in Order No. PSC-07-0984-FOF-WS issued on December 10, 2007. Charlotte County transferred jurisdiction back to the PSC in 2013. Effective February 12, 2013, LGWU was granted Water Certificate No. 661-W (Order No. PSC-13-0177-PAA-WU issued on April 29, 2013). The Utility previously filed annual reports with the PSC from 2000 through 2006. The Utility's next annual report is not due until March 31, 2014. LGWU's rate base has never been established by the PSC. Due to the deterioration of the water plant, the Utility wants to develop an interconnection between Charlotte County Utility (CCU) and LGWU instead of upgrading the water plant. The interconnection would begin on the mainland in Cape Haze to King Street on Little Gasparilla Island and require the Utility to purchase water from CCU.

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).

Procedures: We reviewed the Utility's books and records and determined that while they are not in compliance with the NARUC USOA, it was not substantial enough to hinder our audit. The

Utility does not maintain accounts in accordance and has not retained historical records for the original cost of plant.

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: The Utility could not support the original cost of plant with source documentation. We scheduled UPIS activity from January 1, 2000, through September 30, 2013 using the general ledger and annual reports. We traced asset additions and retirements to supporting documentation where available. We determined the year-end balance and simple average as of September 30, 2013. Our recommended adjustments are discussed in Finding 1, 2 and 3.

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, that 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 searched the Charlotte County Clerk of Court's official records for activity related to purchases or sales of utility land. We determined that the land was recorded at original cost and is owned by the Utility. We traced Land balances to the trial balance. We determined the year-end and simple average Land balances as of September 30, 2013. No exceptions were noted.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether Contributions-in-Aid-of-Construction (CIAC): 1) Consist 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 in its books and records, and is 5) Recorded in compliance with the NARUC USOA.

Procedures: We determined whether an account was established for CIAC by reviewing the Utility's general ledger and determined that the Utility had recorded some CIAC as income. We calculated CIAC based on the number of customers and the system capacity charge from the applicable tariff. We determined the year-end and simple average CIAC balances as of September 30, 2013. Our recommended adjustments are discussed in Findings 4 and 6.

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 calculated depreciation accruals for each UPIS addition that we traced to source documentation account using the rates established by Rule 25-30.140 - Depreciation, F.A.C. 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 as of September 30, 2013. Our recommended adjustments are discussed in Finding 1.

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 recalculated the amortization accruals for CIAC using the rate as required by Commission policy. We determined the year-end and simple average Accumulated Amortization of CIAC balances as of September 30, 2013. Our recommended adjustments are discussed in Findings 4 and 6.

Working Capital

Objectives: 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 September 30, 2013, using one-eighth of Operation and Maintenance (O&M) Expense as required by Commission rule. The calculated amount is noted on the Exhibit for Rate Base.

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 the general ledger. We determined that the Utility's Capital Structure is composed of Short Term Debt and Common Stock. We agreed the general ledger balances to the promissory notes and the bank statement provided by the Utility. We determined the year-end and simple average Capital Structure balances and the applicable cost rates. Our recommended adjustments to Capital Structure are discussed in Findings 10 and 13.

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 customer type to develop a billing determinant report. We obtained the quarterly billing reports and agreed Revenues 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 5.

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 schedule the Utility's O&M expenses for the test year from the general ledger. We included vendor invoices for the test period, confirmed their utility classification, verified their recurring nature and traced them to original source documentation. We determined expenses where the Utility did not have any costs assigned, but where benefits to the Utility operations were evident. We compiled salaries from the general ledger. We obtained the related job duties and descriptions, and the number of hours spent on Utility work. Our recommended adjustments to O&M Expenses are discussed in Findings 7, 8, 9, 10, and 11.

Depreciation 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 September 30, 2013, using the rates established by Rule 25-30.140 - Depreciation, F.A.C. Depreciation and Amortization Expenses are discussed in Findings 1, 4, and 6.

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 RAF for the test year based on test year Revenues. Payroll Taxes were recalculated using the salaries from the general ledger and the applicable tax rates. Our recommended adjustments to TOTI are discussed in Finding 12.

Audit Findings

Finding 1: Unsupported Utility Plant in Service

Audit Analysis: We were unable to establish the original cost of the Plant In Service due to lack of supporting documentation. Therefore, we removed \$840,770 from Plant In Service. Furthermore, the Utility was unable to locate some of the invoices for the plant additions subsequent to the original plant. Consequently, these unsupported amounts, a total of \$164,560 were removed from Plant In Service. See **Table 1.2.** for this detail. **Table 1.3** displays the adjusted plant additions that should be in the general ledger, while **Table 1.4** shows the detail plant in service average balances as of September 30, 2013. **Table 1.5** shows the Depreciation Expense for the test year. **Table 1.6** shows the Average of Accumulated Depreciation.

Staff recalculated documented plant additions with the accumulated depreciation and depreciation expense associated with these additions. We deducted the undocumented plant in service amounts along with the accumulated depreciation and the depreciation expense from the general ledger balances. See **Tables 1.5** and **1.6**.

Included in **Table 1.2** is the purchase of a boat in the amount of \$18,411 and \$2,100 to haul it to the marina for a total cost of \$20,511. It was removed because the company did not own the boat during the test year. See Finding 10 for more information.

Summary of Adjustments

Table 1.1

Account Description	Balance Per Utility 9/30/13	Audit Adj.	Balance per Audit 9/30/2013	Balance per Audit 10/1/2012	Average Bal per Audit 9/30/2013	Average Adjustment
Plant in Service	\$ 1,378,288	\$ (1,005,330)	\$ 372,958	\$ 372,958	\$ 372,958	\$ -
Accu. Dep	\$ 1,031,943	\$ (894,646)	\$ 137,297	\$ 123,551	\$ 130,424	\$ (6,873)
Dep. Exp.	\$ 26,214	\$ (12,469)	\$ 13,745			

Table 1.2

Date	Name	Undocumented Amount	Total Undocumented	Documented Amount	Total Plant Additions
12/31/2000	Original Cost of Plant	\$ 840,770	\$ 840,770	\$ -	\$ 840,770
12/31/2001	Professional Development	\$ 2,628			
12/31/2001	Professional Development	\$ 2,667			
12/31/2001	Professional Fees	\$ 3,790			
04/02/2002	Gueltzow Utilities	\$ 1,562			
04/02/2002	Saxby Well Drilling	\$ 2,000			
04/24/2002	Harn R/O Systems	\$ 909			
05/28/2002	Coast Pump	\$ 1,446			
06/10/2002	Ace Pump	\$ 272			
06/28/2002	Gueltzow Utilities	\$ 179			
06/28/2002	Ace Pump	\$ 134			
08/12/2002	Desal Tech Inc.	\$ 34,392			
08/26/2002	Ace Pump	\$ 223			
12/20/2002	Gueltzow Utilities	\$ 1,449			
12/20/2002	Gueltzow Utilities	\$ 145			
02/25/2002	Mader	\$ 1,497			
02/26/2002	Ace Pump	\$ 106			
03/06/2002	Ace Pump	\$ 49			
10/30/2002	Harn R/O Systems	\$ 91			
12/31/2002	Various	\$ 7,142			
07/25/2002	William Railsback	\$ 4,000			
12/31/2002		\$ 3,000	\$ 67,682	\$ 54,093	\$ 121,775
12/31/2003		\$ 5,878			
12/31/2003		\$ 14,968			
12/31/2003		\$ 1,177			
02/03/2003	Desal Tech Inc.	\$ 300			
03/03/2003	Desal Tech Inc.	\$ 14,966			
04/24/2003	Desal Tech Inc.	\$ 326			
06/02/2003	Desal Tech Inc.	\$ 604			
12/31/2003		\$ 431			
01/06/2003	Coast Pump	\$ 318			
01/08/2003	Ace Pump	\$ 401			
04/17/2003	Gueltzow Utilities	\$ 458			
03/04/2003	Home Depot	\$ 1,031			
04/16/2003	Harold Johnson & Assoc	\$ 2,250	\$ 43,108	\$ 221,680	\$ 264,788
12/31/2005		\$ 9,893			
12/31/2005		\$ 9,893	\$ 19,786	\$ 72,950	\$ 92,736
12/31/2006	Disposal of Kawasaki Mule	\$ (4,000)		\$ 23,533	\$ 23,533
12/31/2010	PICKSON MARINE (Hauling Boat)	\$ 2,100			
12/31/2010	Purchased Boat	\$ 18,411			
12/31/2010		\$ 9,147			
12/31/2010		\$ 1,791	\$ 27,449	\$ -	\$ 27,449
02/11/2011	Jack Boyer	\$ 1,700			
02/18/2011	Jack Boyer	\$ 350			
04/18/2011	Placida Sound Hauling	\$ 300	\$ 2,350	\$ -	\$ 2,350
8/31/2012	Pump			\$ 702	\$ 702
11/15/2012	Jack Boyer	\$ 1,008	\$ 1,008	\$ -	\$ 1,008
04/04/2013	Bill Sanderson	\$ 560			
04/22/2013	Jack Boyer	\$ 550			
08/08/2013	K & B Pump Company	\$ 1,280			
03/25/2013	Jack Boyer	\$ 786	\$ 3,176	\$ -	\$ 3,176
Total Undocumented Additions		\$ 164,660	\$ 164,660	\$ 372,958	\$ 637,618
Total		\$ 1,006,330	\$ 1,006,330	\$ 372,958	\$ 1,378,288

Table 1.3

Plant Additions Documented as of September 30, 2013 (There are no documented plant additions in 2013)

NARUC Acc't	Description	2002	2003	2004	2006	2012	Total
		Documented Additions	Documented Additions	Documented Additions	Documented Additions	Documented Additions	Documented Additions
304	Structures & Improvements		\$ 110,840				\$ 110,840
304	Structures & Improvements			\$ 36,475			\$ 36,475
	Total Account 304	\$ -	\$ 110,840	\$ 36,475	\$ -	\$ -	\$ 147,315
310	Power Generation Equip.				\$ 23,533		\$ 23,533
310	Power Generation Equip.					\$ 702	\$ 702
	Total Account 310	\$ -	\$ -	\$ -	\$ 23,533	\$ 702	\$ 24,235
311	Pumping Equipment	\$ 54,093					\$ 54,093
	Total Account 311	\$ 54,093	\$ -	\$ -	\$ -	\$ -	\$ 54,093
331	2003 Waterline Expansion		\$ 110,840				\$ 110,840
331	2004 Water Line Extension			\$ 36,475			\$ 36,475
	Total Account 331	\$ -	\$ 110,840	\$ 36,475	\$ -	\$ -	\$ 147,315
	Total	\$ 54,093	\$ 221,680	\$ 72,950	\$ 23,533	\$ 702	\$ 372,958

Table 1.4

Average Plant in Service As of September 30, 2013

NARUC Acc't	Description	Balance as of 9/30/2012	Addition	Balance as of 9/30/2013	Average
304	Structures & Improvement	\$ 147,315		\$ 147,315	\$ 147,315
310	Power Generation Equip.	\$ 24,235		\$ 24,235	\$ 24,235
311	Pumping Equipments	\$ 54,093		\$ 54,093	\$ 54,093
331	Transmission & Distribution	\$ 147,315		\$ 147,315	\$ 147,315
	Total	\$ 372,958		\$ 372,958	\$ 372,958
	Per General Ledger	\$ 1,374,104	\$ 4,184	\$ 1,378,288	\$ 1,376,196
	Difference	\$ (1,001,146)	\$ (4,184)	\$ (1,005,330)	\$ (1,003,238)

Table 1.5

Depreciation Expense As of September 30, 2013

NARUC Acc't	Description	Dep Yr.	Depr. Rate	Plant Bal. as of 9/30/2012	Dep Exp from 10/1/2012 to 9/30/2013	Plant Bal as of 9/30/2013
304	Structures & Improvement	28	3.57%	\$ 147,315	\$ 5,261	\$ 147,315
310	Power Generation Equip.	17	5.88%	\$ 24,235	\$ 1,426	\$ 24,235
311	Pumping Equipments	17	5.88%	\$ 54,093	\$ 3,182	\$ 54,093
331	Transmission & Distribution	38	2.63%	\$ 147,315	\$ 3,877	\$ 147,315
	Total			\$ 372,958	\$ 13,745	\$ 372,958
	Per General Ledger			\$ 1,375,112	\$ 26,214	\$ 1,378,288
	Difference			\$ (1,002,154)	\$ (12,469)	\$ (1,005,330)

Table 1.6**Average Accumulated Depreciation as of September 30, 2013**

NARUC Acc't	Description	Acc Dep as of 9/30/2012	Dep Exp 10/1/2012 to 9/30/2013	Acc Dep as of 9/30/2013	Avg Acc Dep
304	Structures & Improvement	\$ 47,364	\$ 5,261	\$ 52,625	\$ 49,995
310	Power Generation Equip.	\$ 8,672	\$ 1,426	\$ 10,098	\$ 9,385
311	Pumping Equipments	\$ 32,615	\$ 3,182	\$ 35,797	\$ 34,206
331	Transmission & Distribution	\$ 34,900	\$ 3,877	\$ 38,777	\$ 36,839
	Total	\$ 123,551	\$ 13,746	\$ 137,297	\$ 130,424
	Per General Ledger	\$ 1,031,913	\$ 26,214	\$ 1,058,157	\$ 1,045,035
	Difference	\$ (908,362)	\$ (12,468)	\$ (920,860)	\$ (914,611)

Effect on the General Ledger: Plant In Service and Accumulated Depreciation should be reduced by \$1,005,330 and \$920,860 (credited and debited respectively).

Effect on the Filing: Average Plant In Service should be reduced by \$1,003,238 (credited). Average water Accumulated Depreciation should be reduced by \$914,611 (debited). Water depreciation expense should be reduced (credited) \$12,468. The adjustments should be reviewed by the engineering staff.

Finding 2: Utility Plant in Service Proformas

Audit Analysis: The Utility has been borrowing a backhoe from a resident living on the island when it needed to use one for Utility purposes. The owner of the backhoe did not replace it when it broke down. Therefore, the Utility wants to purchase a used backhoe for \$24,694 from Barretts of Southwest Florida, Inc. The Utility says that it may also utilize this backhoe in the construction of the interconnection discussed in Finding 3.

The Utility also needs to repair its generator and extend its life and has obtained an estimate in the amount of \$1,200.73 from Charlotte County Generator.

The Utility also would like to purchase a used golf cart to use as transportation on the Island. The total cost is \$4,922.

Below is the summation of these costs:

Table 2.1

NARUC Acc't	Acc't Description	Description	Amount
310	Power Generation Equip	Generator repair	\$ 1,201
339	Other Miscellaneous Equip	Backhoe	\$ 24,695
341	Transportation	Golf Cart	\$ 4,922
	Total		\$ 30,818

There are no assets being retired on these plant additions.

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

Effect on the Filing: The analyst should determine whether these costs should be included.

Finding 3: Utility Interconnect Proformas

Audit Analysis: The Utility's plant is in need of substantial upgrades. The Utility intends on interconnecting with Charlotte County Utility (CCU) and purchasing the water from CCU for distribution. The estimated cost for this Interconnection Project is \$648,975. The Utility also wants to move the Utility office from the mainland to the island and estimates this to be \$300,000.

The Utility has started incurring costs for the Interconnection project since 2011 in the amount of \$21,099 of which only \$11,174.30 has supporting documentation. These costs were for easement application and consultation and have not been depreciated by the Utility. The Utility keeps these charges separated from the plant balance shown in Finding 1. Below is the summary of the incurred costs.

Table 3.1

Account Description	Date	Type	Amount	Plant Total
2012 Interconnection Charges				
Supporting Documentation				
Transmission & Distribution	01/05/2012	DMK Group	\$ 1,221	
Transmission & Distribution	01/26/2012	Knight Island Utilities, Inc.	\$ 284	
Transmission & Distribution	03/21/2012	DMK Group	\$ 1,633	
Transmission & Distribution	04/11/2012	Knight Island Utilities, Inc.	\$ 2,776	
Transmission & Distribution	05/22/2012	DMK Group	\$ 1,135	
Transmission & Distribution	08/10/2012	Knight Island Utilities, Inc.	\$ 551	
Transmission & Distribution	08/23/2012	Knight Island Utilities, Inc.	\$ 777	
Transmission & Distribution	09/20/2012	DMK Group	\$ 2,798	\$ 11,174.30
Non-Supporting Documentation				
2011 Interconnection Charges				
Transmission & Distribution	08/03/2011	Knight Island Utilities, Inc.	\$ 1,046	
Transmission & Distribution	04/29/2011	Dept. of Environmental Protection	\$ 44	
Transmission & Distribution	05/04/2011	Office Depot	\$ 150	
Transmission & Distribution	10/05/2011	Knight Island Utilities, Inc.	\$ 798	
Transmission & Distribution	11/10/2011	Knight Island Utilities, Inc.	\$ 1,755	
Transmission & Distribution	12/29/2011	Knight Island Utilities, Inc.	\$ 158	3,951.23
2012 Interconnection Charges				
Transmission & Distribution	09/20/2012	Knight Island Utilities, Inc.	\$ 588	
Transmission & Distribution	11/08/2012	Knight Island Utilities, Inc.	\$ 452	
Transmission & Distribution	12/19/2012	Knight Island Utilities, Inc.	\$ 63	1,102.50
2013 Interconnection Charges				
Transmission & Distribution	01/03/2013	DMK Group	\$ 2,000	
Transmission & Distribution			\$ 1,747	
Transmission & Distribution	01/18/2013	Knight Island Utilities, Inc.	\$ 1,124	\$ 4,871
		Total Interconnection Proformas		\$ 21,099

We interviewed the owner, Mr. Boyer regarding the effect the interconnection with the county would have on the Utility expenses. **Table 3.2** shows the interconnection effects that have been estimated by the Utility.

Table 3.2

Description	Amount	Notes
Purchase Water	\$ 54,325	To purchase 10 million gallons/year
Reduce Chemicals	\$ (3,855)	
Reduce Purchase Power	\$(11,501)	50% reduction in utilities
Other Expenses	\$(20,000)	Less Repairs and Maintenance
Total	\$ 18,969	

The Utility also indicated that salaries will change for Ashton Boyer depending on the requirements of the DEP. Salaries are discussed in Finding 9.

The Utility's new customers currently pay an impact fee of \$4,500. However, the customers will have to pay an additional \$1,780 to connect to Charlotte County Utility. This is the Charlotte County Utility connection fees for their customers.

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

Effect on the Filing: The analyst should determine which of these costs should be considered in this proceeding and which existing plant in service balances would need to be retired once the new plant is in place.

Finding 4: CIAC and Accumulated Amortization of CIAC

Audit Analysis: On January 17, 1996, Little Gasparilla Utility Inc. was granted exempt status from Commission regulation pursuant to the provisions of Section 367.022 (7), Florida Statutes as stated in Order No. PSC 96-0460-FOF-WS. This status was based on it being a nonprofit corporation and providing service solely to its members who owned and controlled it. On May 17, 1999, the regulatory status changed because it merged with Little Gasparilla Water Utility, Inc., a for-profit corporation. The Utility did not apply for a certificate until 2001 because the negotiations for a sale, that never took place, took over a year. Also, Charlotte County and the Florida Department of Community Affairs had objected to the application with the Commission because it believed there was no development on the island and wanted to control the island's growth. Both of these withdrew their objections once maps were reviewed and it was confirmed that there was development and service on the island. The Utility was issued a water certificate in Order No. PSC-01-0992-PAA-WU, issued April 20, 2001. Effective September 27, 2007, the Commission's jurisdiction was rescinded by Charlotte County and this certificate was cancelled.

Order No. PSC-01-0992-PAA-WU, dated April 20, 2001, states that the utility was charging a system capacity charge of \$4,500 before it came under the Commission's jurisdiction, however, we could not verify this because of the lack of records. The Commission issued a tariff effective May 22, 2001, which indicates a system capacity charge of \$4,500 per each residential ERC and no charge for all others. The 2000 Annual Report filed with the Commission shows a beginning balance of CIAC of \$21,000, a credit, and a beginning balance of Accumulated Amortization of CIAC of \$327, a debit. The Utility did not explain how this amount was calculated. We could not agree these balances to the general ledger because the Utility has not recorded CIAC on its general ledger from 2000 to 2011 nor has it recorded its associated accumulated amortization. Since the Utility filed annual reports with the Commission from 2000 to 2006, we started our calculation of CIAC in 2000. We compiled the number of customers by year from prior annual reports or from the books. We have used 2.5% to amortize CIAC to agree with prior Commission policy. See the following page.

The Commission approved a tariff for the Utility effective June 11, 2013. This tariff indicates a system capacity charge of \$4,500 per each residential ERC and \$12.86 per gallon charge for all others. Only residential customers were added in 2013.

Effect on the General Ledger: As of September 30, 2013, the effect on the general ledger is the following:

NARUC			
Account	Account Name	Debit	Credit
215	Retained Earnings	\$ 490,387	
271	CIAC		\$ 616,500
272	Accumulated Amortization-CIAC	\$ 123,159	
415	Other Income - Impact Fee	\$ 18,000	
407	Amortization Expense - CIAC		\$ 15,046
		\$ 631,546	\$ 631,546

Effect on the Filing: Average CIAC should be increased by \$607,500. Average Accumulated Amortization – CIAC should be increased by \$115,636. Amortization Expense – CIAC should be increased by \$15,046. Income – Impact Fees should be decreased by \$18,000.

Table 4.1

CIAC and Accumulated Amortization

	12/31/1999	Additions	12/31/2000	Additions	12/31/2001	Additions	12/31/2002	Additions	12/31/2003	Additions	12/31/2004	Additions	12/31/2005	Additions	12/31/2006
CIAC	\$ -	\$ (49,500)	\$ (49,500)	\$ (22,500)	\$ (72,000)	\$ (45,000)	\$ (117,000)	\$ (22,500)	\$ (139,500)	\$ (153,000)	\$ (292,500)	\$ (81,000)	\$ (373,500)	\$ (94,500)	\$ (468,000)
Amtz. CIAC	\$ -	\$ 619	\$ 619	\$ 1,519	\$ 2,138	\$ 2,363	\$ 4,500	\$ 3,206	\$ 7,706	\$ 5,400	\$ 13,106	\$ 8,325	\$ 21,431	\$ 10,519	\$ 31,950

	Additions	12/31/2007	Additions	12/31/2008	Additions	12/31/2009	Additions	12/31/2010	Additions	12/31/2011	Additions	12/31/2012	Additions	09/30/2013
CIAC	\$ (40,500)	\$ (508,500)	\$ (13,500)	\$ (522,000)	\$ (18,000)	\$ (540,000)	\$ (18,000)	\$ (558,000)	\$ (13,500)	\$ (571,500)	\$ (27,000)	\$ (598,500)	\$ (18,000)	\$ (616,500)
Amtz. CIAC	\$ 11,194	\$ 43,144	\$ 12,881	\$ 56,025	\$ 13,275	\$ 69,300	\$ 13,725	\$ 83,025	\$ 14,119	\$ 97,144	\$ 14,625	\$ 111,769	\$ 11,391	\$ 123,159
Average CIAC	\$ (607,500)													
Average Acc. Amtz. CIAC	\$ 115,636													

Rate of 2.5% used/1/2 year convention

Year	2000	2001	2002	2003	2004	2005	2006	Total Connections
Connections	11	5	10	5	34	18	21	104
Capacity Charge per Tariff	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	
Total	\$ 49,500	\$ 22,500	\$ 45,000	\$ 22,500	\$ 153,000	\$ 81,000	\$ 94,500	
Year -	2007	2008	2009	2010	2011	2012	2013	
Connections	9	3	4	4	3	6	4	33
Capacity Charge	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	
Total	\$ 40,500	\$ 13,500	\$ 18,000	\$ 18,000	\$ 13,500	\$ 27,000	\$ 18,000	

Total Cust.	
2000 - 2006 - PSC Annual Reports	106
2008 - 2010 agrees with County SAR and/or books	20
2011, 2012 and 2013 - Utility's books	13
Total customers added 2000 - 2013	139
Total customers at 9/6/13 per billing records	370
Remaining bal indicates customers at beginning of 2000	231

The Utility explained all general service customers were added in 1988, except for 2 that were added in 2004. Therefore the 2004 number of customers has been reduced since only residential customers are required to pay \$4,500 per the tariff dated 5/22/200:

Table 4.2

Average Calculation					
		Average	Test Year		Average
Test Year	CIAC	CIAC	Amtz.	Acc. Amtz	Acc. Amtz
9/30/2012	\$ (598,500)			\$ 108,113	
9/30/2013	\$ (616,500)	\$ (607,500)	\$ 15,046	\$ 123,159	\$ 115,636

Finding 5: Operating Revenue

Audit Analysis: The Utility's records reflect test year revenues of \$276,331 for water service. This Revenue consists of \$18,000 for Sales – Impact Fees, \$900 for Sales – Other and \$257,431 for Water Bills. See Findings 4 and 6 for staff's adjustments to revenues for Sales – Impact Fees for \$18,000 and Sales – Other for \$900, respectively. We reviewed the Utility's general ledger, quarterly detailed billing reports, and recalculated customers' bills. We determined that revenues were not complete and the Commission approved tariff rates were not applied appropriately. We calculated the audited revenues to be \$ 265,069 (\$257,431 total Water Bills account balance + \$7,638 in adjustments). Table 5.1 summaries our adjustments to revenues.

Table 5.1

Description	Staff's Adjustment
Journal Entry Correction Adjustment	\$ (805)
Water Service Credit Adjustment	\$ 521
Aging Report Adjustment	\$ 7,060
Billing Errors Adjustment	\$ (3,163)
Unreported Late Fee Adjustment	\$ 1,177
Additional Late Fee Adjustment	\$ 2,848
Total	\$ 7,638

Correcting Out of Period Adjustment

The general ledger includes a correcting journal entry for \$805 to reclassify a loan booked in the wrong account. The originating entry was booked on April 2, 2012 and is out of the test year. This correction entry overstates revenues by \$805 and should be removed from the test year.

Billing Adjustments for Bob Hill

In August of 1989, the Utility agreed to provide Bob Hill, the former owner of the utility, free water in exchange for an easement on his residence until his residence is sold. The Utility needs the easement to expand water services to the north side of the island. Mr. Hill's home is currently up for sale. This easement is unrecorded. During the test year, the general ledger revenues were reduced \$1,228 to remove Bob Hill's billed usage reported on the aging report. We compared the general ledger billing adjustments to the aging report in Table 5.2. The billing adjustment is composed \$707 for test year billing adjustments and \$521 for adjustments unrelated to Mr. Hill's test year usage. Revenues should be increased by \$521 to remove adjustments unrelated to Mr. Hill's test year usage. To set rates going forward, revenues may also need to be increased by \$707 to remove all billing credit adjustments for Bob Hill. We are deferring the issue to the analyst in Tallahassee to determine the appropriate resolution.

Table 5.2

Qtr	Billing Adj. Per G/L	Billing Adj. Per Aging Report	Difference	Reason for Differences
1	\$ (148)	\$ (156)	\$ 8	The G/L includes an extra qtr
2	\$ (737)	\$ (213)	\$ (524)	The 1st and 2nd Qtrs of the test year as booked together and the entry were duplicated. \$368.80 = \$155.80 1st Qtr + \$212.80 2nd Qtr billing
3	\$ (170)	\$ (165)	\$ (5)	The G/L includes Late Fee
4	\$ (173)	\$ (173)	\$ -	
Total	\$ (1,228)	\$ (707)	\$ (521)	Test Year Credits are overstated

Aging Report Understatement Adjustment

Each quarter, the Utility runs an aging report from its billing system and reports the total current balance due amount as its quarterly revenues. The current balance due is composed of the quarterly base charge, consumption charges, and credits reduced by any previous balance. The aging report does not account for miscellaneous charges. The aging report excludes any bills with a previous credit greater than the current balance due. This error understates revenues by \$7,060 (\$257,854 balance of aging report - \$264,914 balance of billing report).

Test of Bills Adjustment

We recalculated customers' bills using the billing report and found some billing errors. There were instances where both the seller and buyer of a home were charged the base facility charge during the same billing period. Also, consumption is billed using a two-tier billing method. For consumption of 0 to 1,000 gallons, the Utility charges a flat rate of \$4.81. For usage over 1,000 gallons, the Utility prorates consumption according to the tariff's rate. The tariff states that consumption charge is \$4.81 per 1,000 gallons for water service. This charge applies to both residential and general service customers. Consumption charges should not be fixed and should be billed according to consumption. Lastly, a few customers were not charged according to the tariff rates. Table 5.3 quantifies the different billing errors. Altogether, the billing errors overstate revenues by \$3,163. The Utility stated they are using this method because Charlotte County approved this method of billing during its last rate case with the County.

Table 5.3

Billing Errors	Residential	General Service	Total
Sell of Home Adj.	\$ 601		\$ 601
Fixed Consumption Adj.	\$ 1,090	\$ 34	\$1,124
Not Billed According to Tariff Adj	\$ 1,438		\$1,438
Total Billing Errors Adjustment	\$ 3,129	\$ 34	\$3,163

Late Fee Adjustment

The billing report reported 805 instances of late fees totaling \$1,177. The utility did not record these miscellaneous charges on the books. The tariff rate was changed to \$5.00 per bill during the test year. In Table 5.4, we imputed the test year revenues based on the current tariff rate of \$5.00 and the number of late fees issued during the test year. To reflect current tariff rates, we have included an adjustment of \$2,848 (\$4,025 imputed late fees - \$1,177 for unreported miscellaneous charges from billing report) to reflect the appropriate test year revenues.

Table 5.4

Customer Type	No. of Late Fees		Tariff Rate		Test Year Late Fees
Residential	802	x	\$ 5	=	\$ 4,010
General Service	3	x	\$ 5	=	\$ 15
Total	805				\$ 4,025

The analyst should be aware of the Utility’s future opportunity to increase revenues by charging other miscellaneous fees approved in its tariff. The test of bills revealed that the Utility only charges late fees. The Utility does not charge for disconnects, initial connections, or reconnections related to non-payment, violations, or change of owners. There were no records to impute the estimated miscellaneous fees the utility has failed to bill. The Utility should charge customers according to the tariff when these activities occur.

Effect on the General Ledger: The Utility should determine the effect on their general ledger.

Effect on the Filing: Water revenue should be increased by \$7,638.

Finding 6: CIAC Booked as Revenues

Audit Analysis: The Utility collected \$900 from residential customers to make improvements and booked these transactions as revenues. The Utility explained this relates to installing water lines to a house and changing valves. This appears to be CIAC. The \$900 should be reclassified from Revenues to CIAC to reflect the appropriate revenues and CIAC balance in the test year. We have calculated the associated accumulated amortization of CIAC using 2.5% with ½ year convention to follow prior Commission policy.

Effect on the General Ledger: As of September 30, 2013, the effect on the general ledger is as follow:

Account	Account Name	Debit	Credit
415	Sales - Other	\$ 900.00	
271	CIAC		\$ 900.00
272	Acc. Amtz. CIAC	\$ 11.25	
407	Amortization Exp.		\$ 11.25
		\$ 911.25	\$ 911.25

Effect on the Filing: Average CIAC should be increased by \$450, Average Accumulated Amortization CIAC should be increased by \$5.62 and amortization expense should be increased by \$11.25.

Finding 7: Operation and Maintenance Expenses

Audit Analysis: The Utility does not maintain its books in conformity with the NARUC Uniform System of Accounts (USOA). Using the general ledger, we converted the operation and maintenance (O&M) expense to NARUC accounts. As of September 30, 2013, the Utility's ledger reflects O&M expenses of \$173,362 for the test year. We reviewed all test year invoices for proper period, account, classification, support documentation, and whether non-utility related, non-recurring, and unreasonable. Table 7.1 summarizes expenses by NARUC accounts with staff's adjustments. Allocated rent and salary account 601 and 603 expenses were tested separately. See Finding 8 and 9 for staff's adjustments regarding rent allocation and salaries. Tables 7.2 and 7.3 explain each adjustment and reconcile the adjustment balances to the general ledger entry, respectively.

Table 7.1

NARUC	NARUC Description	Test Year Expenses	Staff's Adjustment	Staff's Adjusted Balance
601	Salaries and Wages - Employees	\$ 23,383	\$ -	\$ 23,383
603	Salaries and Wages - Officers, Directors and Majority Stockholders	\$ 70,000	\$ -	\$ 70,000
616	Fuel for Power Production	\$ 1,512	\$ (5)	\$ 1,507
618	Chemicals	\$ 1,975	\$ 194	\$ 2,169
620	Materials and Supplies	\$ 14,613	\$ (5,835)	\$ 8,778
630	Contractual Services	\$ 4,710	\$ 8,128	\$ 12,838
635	Water Testing	\$ 3,508	\$ (39)	\$ 3,469
650	Transportation Expenses	\$ 9,606	\$ (1,763)	\$ 7,843
655	Insurance Expense	\$ 11,547	\$ (3,530)	\$ 8,017
665	Regulatory Commission Expenses	\$ 1,000	\$ 1,700	\$ 2,700
675	Miscellaneous Expenses	\$ 31,508	\$ (3,082)	\$ 28,426
	Total	\$ 173,362	\$ (4,231)	\$ 169,130

The Utility explained that approximately \$500 of each customer's system capacity charge of \$4,500 is expensed to install new customer's meters. The utility installed 4 new meters during the test year and recorded the expenses in O&M instead of recording in Plant. We do not have sufficient support to remove all cost related to the meters cost expensed in O&M. However, we were able to identify \$1,102 of meter installation cost. Of the cost identified, 20% of the total relates to labor and 80% relates to materials. We have imputed \$2,000 (4 new customers * \$500 of estimated cost) for total expensed and have allocated the cost based on the expenses identified. We are reducing account 620 - Material and Supplies by \$725 (\$2,000 imputed cost * 81% allocation - \$890 identified cost) and account 630 - Contractual Services by \$173 (\$2,000 imputed cost * 19% allocation - \$212 cost identified) to remove O&M. We will not have an effect on CIAC, accumulated amortization of CIAC, and amortization of CIAC because CIAC had to be imputed for the test year, see Finding 4.

The Utility expensed \$541 of plant. The associated accumulated depreciation and depreciation expense is \$8 (\$541 of plant * 3.03% rule rate * .5 for ½ year). We calculated it using 3.03% rule rate and ½ year convention to follow prior Commission policy.

Effect on the General Ledger: As of September 30, 2013, the effect on the ledger is as follow:

NARUC	Description	Debit	Credit
186	Miscellaneous Deferred Debits	\$ 3,696	
183	Preliminary Survey and Investigation Charges	\$ 7,344	
304	Structure and Improvements	\$ 541	
108	Accumulated Depreciation		\$ 8
403	Deprecation Expense	\$ 8	
616	Fuel for Power Production		\$ 5
618	Chemicals	\$ 194	
620	Materials and Supplies		\$ 5,835
630	Contractual Services	\$ 8,128	
635	Water Testing		\$ 39
650	Transportation Expenses		\$ 1,763
655	Insurance Expense		\$ 3,530
665	Regulatory Commission Expenses	\$ 1,700	
675	Miscellaneous Expenses		\$ 3,082
215	Retained Earnings		\$ 7,350

Effect on the Filing: Average Plant and Accumulated Depreciation should increase by \$271 and \$4, respectively. Depreciation expense should be increased by \$8. O&M expenses should decrease by \$4,231.

Table 7.2

NARU C	NARUC Description	O&M Adj.	Reasons for Staff's Adjustments	Acct. 215 R/E Adj.	Acct. 304 Plant Adj.	Acct. 183 Prelim. Survey	Meter Adj	Acct. 186 Misc. Def. Debits
616	Fuel for Power Production	(\$5)	To remove Late fees	\$5				
618	Chemicals	\$194	Amount reclassified from other O&M account adjustment					
620	Materials and Supplies	\$831	To remove December 2011 accrual reversal entry. Accruals and reversals are recorded on 12/31/201X.	(\$831)				
620	Materials and Supplies	(\$890)	To reclass meter purchases to plant				\$890	
620	Materials and Supplies	(\$194)	To reclass various chemical purchases to Chemicals					
620	Materials and Supplies	(\$2,374)	To reclass contracted labor to Account 630 Contractual Services					
620	Materials and Supplies	\$369	To remove December 2011 accrual reversal entry. Accruals and reversals are recorded on 12/31/201X	(\$369)				
620	Materials and Supplies	(\$1,808)	To remove December 2012 accrual that was not reversed in the test year. Accruals and reversals are recorded on 12/31/201X.	\$1,808				
620	Materials and Supplies	(\$1,035)	To remove expenses without support	\$1,035				
620	Materials and Supplies	(\$8)	To remove snacks and beverages	\$8				
620	Materials and Supplies	(\$725)	To reclass additional estimated meter expenses that should have been booked to plant				\$725	
630	Contractual Services	(\$6,499)	To reclass preliminary cost related to interconnection to Account 183 - Preliminary Survey and Investigation Charges			\$6,499		
630	Contractual Services	\$11,762	To remove December Journal Entry to reclass the 2012 account balance for preliminary interconnection project.	(\$11,762)				
630	Contractual Services	(\$625)	To remove 1 payment. There are 13 payments in the test year.	\$625				
630	Contractual Services	(\$400)	To remove non-recurring cost	\$400				
630	Contractual Services	(\$212)	To reclass labor cost for new meter installations				\$212	
630	Contractual Services	(\$315)	To remove out of period expenses for weed removal rendered May to Sept 2012	\$315				
630	Contractual Services	\$7,630	To remove December 2011 accrual reversal entry. Accruals and reversals are recorded on 12/31/201X.	(\$7,630)				
630	Contractual Services	(\$98)	To remove expenses without support	\$98				

NARUC Description	O&M Adj.	Reasons for Staff's Adjustments	Acct. 215 R/E Adj.	Acct. 304 Plant Adj.	Acct. 183 Prelim. Survey	Meter Adj	Acct. 186 Misc. Def. Debits
Contractual Services	(\$2,500)	To reclass payment to accountant for compiling the 2012 PSC Annual Report to Account 665 - Regulatory Commission Expenses					
Contractual Services	(\$845)	To reclass preliminary cost related to interconnection Account 183 - Preliminary Survey and Investigation Charges			\$845		
Contractual Services	(\$2,643)	To reclass legal expenses for Grandfather Water certification with PSC Account 186 Misc. Deferred Debits					\$2,643
Contractual Services	\$1,221	To remove December 2011 accrual reversal entry. Accruals and reversals are recorded on 12/31/201X.	(\$1,221)				
Contractual Services	(\$550)	To remove expenses without support	\$550				
Contractual Services	\$2,374	Amount reclassified due to audit adjustment					
Contractual Services	(\$173)	To reclass additional estimated meter expenses that should have been booked to plant				\$173	
Water Testing	(\$39)	To remove December 2012 accrual that was not reversed in the test year. Accruals and reversals are recorded on 12/31/201X.	\$39				
Transportation Expenses	(\$570)	To remove gas receipts outside of the test period.	\$570				
Transportation Expenses	(\$465)	To remove expenses without support	\$465				
Transportation Expenses	(\$124)	To remove motorcycle repair belonging IDN, an associated company.	\$124				
Transportation Expenses	(\$170)	To remove a non-recurring auto repair bill for a car Mr. Boyer backed into while hauling utility trash.	\$170				
Transportation Expenses	(\$5)	To remove expenses without support	\$5				
Transportation Expenses	(\$147)	To remove expenses without support	\$147				
Transportation Expenses	(\$253)	To remove half the cost of sanding and painting the bottom of the Utility's boat to prevent salt water damage to Account 186 - Miscellaneous Deferred Debits. The Utility paints the boat every 2 years .					\$253
Transportation Expenses	(\$59)	To remove out of period expenses.	\$59				
Transportation Expenses	(\$3)	To remove snacks	\$3				
Transportation Expenses	(\$20)	To reclass customer thank you gift for allowing utility to use golf cart and for over the counter medication to Account 675 - Miscellaneous Expenses.					
Transportation Expenses	(\$216)	To remove expenses without support	\$216				

NARU C	NARUC Description	O&M Adj.	Reasons for Staff's Adjustments	Acct. 215 R/E Adj.	Acct. 304 Plant Adj.	Acct. 183 Prelim. Survey	Meter Adj	Acct. 186 Misc. Def. Debits
			The Utility reimbursed the owner of the boat, Marc Essig, \$226 for registering the boat for 2 years. The boat was registered after the test year but should be included in test year expenses. We have reduced the amount by 50% to reflect one year of cost.					
650	Transportation Expenses	\$113						
650	Transportation Expenses	\$158	Amount reclassified from other O&M account adjustment					
655	Insurance Expense	(\$1,457)	To remove personal, out-of-pocket patient deductible paid by the Utility for Jack.	\$1,457				
655	Insurance Expense	(\$250)	To remove expenses without support	\$250				
655	Insurance Expense	(\$1,822)	To remove expenses without support	\$1,822				
665	Regulatory Commission Expenses	(\$800)	To reclass 4/5 of recertification application fee to Account 186 Misc. Deferred Debits					\$800
665	Regulatory Commission Expenses	\$2,500	Amount reclassified from other O&M account adjustment					
675	Miscellaneous Expenses	(\$541)	To reclass Home Depot purchases related to new office construction.		\$541			
675	Miscellaneous Expenses	(\$158)	To reclass a new battery and accessories purchase to Account 650 - Transportation Expenses					
675	Miscellaneous Expenses	(\$87)	To remove personal items purchased and reimbursed by the utility.	\$87				
675	Miscellaneous Expenses	(\$629)	To remove insufficient fund bank fees	\$629				
675	Miscellaneous Expenses	\$217	To remove December 2011 accrual reversal entry.					
675	Miscellaneous Expenses	(\$369)	Accruals and reversals are recorded on 12/31/201X.	(\$217)				
675	Miscellaneous Expenses	(\$369)	To remove expenses without support	\$369				
675	Miscellaneous Expenses	(\$1)	To remove snacks	\$1				
675	Miscellaneous Expenses	(\$940)	To remove 2 of 5 line, bill included 2 personal lines	\$940				
675	Miscellaneous Expenses	(\$95)	To remove late fees.	\$95				
675	Miscellaneous Expenses	(\$500)	To remove 1 of the Annual Drinking Water License. There were 2 annual fees in the test year.	\$500				
675	Miscellaneous Expenses	\$20	Amount reclassified from other O&M account adjustment					
	Total Adjustments	(\$4,231)		(\$9,237)	\$541	\$7,344	\$2,000	\$3,696

Note B

Note A

Table 7.3

NARU	NARUC Description	Amt.	Reasoning	Notes
215	R/E Adj.	(\$9,237)		
271	CIAC Adj.	\$2,000	CIAC test year balance was imputed for the test year any adjustments for meter install cost would overstate CIAC balance.	A
650	Transportation Expenses	(\$113)	Boat Registration expense was an unassigned expense.	B
	Total	(\$7,350)	Retained earnings in journal entry	

Finding 8: Rent Allocation

Audit Analysis: The owners of the Utility, the Boyers, reside and work out of their 2-bedroom rental home on the mainland. The cost of the rental property is \$1,185/month. The Boyers pay \$692.50/month for personal use and allocate \$492.50/month to the Utility. The \$492.50 is comprised of \$200 for the boat dock rental for a boat used for Utility purposes and \$292.50 for office space.

Total O&M test year expenses for rent was \$5,910. The Boyers charged approximate market rate for the slip and the lessor of one-half or 30% of the rest of the rent. The Utility does not have a formal rental agreement with the Boyers or the owner of the rental home. However, the owner of the property knows the Boyers utilize the home for business purposes.

The Utility's office rent includes use of the space in and around the office trailer, storage, utilities, parking, and common areas of the rental home. The Boyers placed a 12 by 24 foot trailer on the grounds of their rental home and uses it for the Utility office and storage. The Boyers used utility funding to convert the trailer into an office with 3 work stations.

This office is not equipped with a break area, bathroom, conference area, or running water. Therefore, employees and all guests must enter the main house to use its amenities. In addition, the yard and parking areas are utilized by both the Boyers and the Utility. During our visit, we noted that one-fourth of the area is utilized for Utility business. The area is used for parking, storage, and as a workshop. Table 8.1 allocates the rent based on the lot size of the rental home excluding the dock rental allocation of \$200. Our calculation shows a difference in rent of \$29 (\$292.50 for rent allocated by Utility less \$263 for rent computed by staff). The analyst may want to take into consideration that the Boyers do not allocate a portion of their electric bill or charge the Utility for cleaning and increase the amount of rent.

Table 8.1

Description	Amount		Description	Amount	
Total Rent	\$ 1,185		Lot Size	10,600	Sq. Ft.
Less Dock Rent	\$ 200		Rent	\$ 985	
Space Rent	\$ 985		Price	\$ 0.09	Per Sq. Ft.
Description	Amount in Sq. Ft.	Percentage	Cost	Utility Allocation	Boyers' Allocation
Common Areas					
Kitchen	180	1.70%	\$ 17	\$ 8	\$ 8
Bathroom	64	0.60%	\$ 6	\$ 3	\$ 3
Dining Room	100	0.94%	\$ 9	\$ 5	\$ 5
Total Common	344	3.25%	\$ 32	\$ 16	\$ 16
Personal Areas	1336	12.60%	\$ 124		\$ 124
Total Home	1680	15.85%	\$ 156	\$ 16	\$ 140
Trailer	576	5.43%	\$ 54	\$ 54	
Yard	8,344	78.72%	\$ 775	\$ 194	\$ 582
Total	10,600	100.00%	\$ 985	\$ 263	\$ 722

The Utility is charged \$200 for dock rental with a boat lift on the Boyers rental property. This amount is \$20 more per month than what the Utility pays for the primary boat dockage rental at Eldred Marina. The boat docked at the marina is not on a lift and requires the bottom of the boat to be painted every 2 years to prevent salt water damage. The boat docked at the Boyers is on a lift and requires less maintenance. This boat is utilized as a spare boat in case the primary boat breaks down and to provide Mr. Boyer emergency access to the island. Mr. Boyer is on call 24 hours a day. This second boat is owned by the Utility. See Finding 10 for specific information regarding both boats.

We searched the web for comparable rental homes and determined the rental rate of \$1,185 is below market prices in that area. The closest available rental property is asking \$1,800/month and the rental does not include a boat slip dock. We also searched nearby marinas and found their starting rates to be over \$200/month.

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

Effect on the Filing: The analyst needs to determine the appropriate costs to include.

Finding 9: Payroll Expense Proforma

Audit Analysis: The salaries recorded on the books for the test year are as follows:

Table 9.1

Account Name		Amount
Officers Salary -		
Management	Jack Boyer	\$ 31,000.00
Meter Reader	Jack Boyer	\$ 6,500.00
Operation Manager	Jack Boyer	\$ 32,500.00
Total Officers Salary		\$ 70,000.00
Salaries -		
Bookkeeping	Audrey Rice	\$ 7,653.25
Operations	Ashton Boyer	\$ 15,730.00
Total Other		\$ 23,383.25
Total		\$ 93,383.25

Mr. Jack Boyer is the overall Administrator and is in charge of the overall operations. Audrey Rice prepares the billing and the overall bookkeeping and office duties. Ashton Boyer also works on the daily operations of the plant including maintenance. Mrs. Diane Boyer, Jack's wife, reads the meters. She also assists Jack with administrative duties and Audrey with office duties. No payroll expense was charged for Diane. The Utility believes she should be in the payroll for a total of \$18,000 a year going forward. If this additional amount is allowed, the additional payroll should be \$11,500, since the \$6,500 meter reading salary has already been included in the books.

Table 9.2

	FUTA	SUTA	FICA	Proforma Total Per Staff
Taxable Wage Limits	\$ 7,000	\$ 8,000	\$ 113,700	
No. of employees	1	1		
Total taxable wages all	\$ 7,000	\$ 8,000		
Rates 2013	0.60%	5.40%	7.65%	
Proforma for additional Salary			\$ 11,500	
Total	\$ 42	\$ 432	\$ 880	\$ 1,354

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

Effect on the Filing: The analyst needs to determine whether these costs should be included.

Finding 10: Boat Usage by Utility

Audit Analysis: The Utility explained it needs two boats for Utility purposes in order to have access to the plant located on the Island at all times, since one boat may malfunction at any time.

The primary boat used is recorded on the books and is addressed in Finding No. 1. The owner explained that this boat is not owned by the Utility. It is owned by Mr. Marc Essig, the owners' son-in-law. Mr. Essig was able to obtain a lower finance rate for the loan to purchase the boat. The loan was for \$18,696.47 with an interest rate of 7.49% for 144 payments, with a beginning date of January 30, 2011. The outstanding loan amount as of September 30, 2013 is \$15,757.34. The Utility provided a signed document in 2014 that states the related ownership and liability is fully that of the Utility, and that the Utility provides all funding and insurance. This document does not state that the title will be signed over to the Utility once the debt is satisfied but the owner indicated verbally that the title will be signed over to the Utility. All the payments are made by the Utility. Since this debt is not owned by the Utility, it is not included in Cost of Capital.

The Utility purchased a used boat from Saxby Well Drilling for the cost of repairs of \$1,200 sometime in December of 2013 (after the test year) The boat replaces the old spare boat that was owned by Mr. Boyer. Mr. Boyer has donated and installed the motor from his old boat onto this used boat purchased by the Utility. The boat title is in the process of being transferred over to the Utility. The boat will need to be registered in the state of Florida. The Utility will also have a cost of registration for this boat.

Effect on the General Ledger: The effect on Plant In Service, Accumulated Depreciation, and Depreciation Expense for the test year is addressed in Finding 1.

Effect on the Filing: The effect on Plant In Service, Accumulated Depreciation, and Depreciation Expense for the test year is addressed in Finding 1. The analyst should consider the cost of registration that was not available at time of this audit, as well as the cost of repairs that took place subsequent to the test year.

Finding 11: Proforma Expenses

Audit Analysis: On February 2, 2014, the Utility entered into a service contract with Charlotte County Generators to provide annual maintenance to its generator. Annually, the Utility will pay \$290 and receive two semi-annual system inspections and full service (oil changes) on the generator including parts. This service contract is in addition to the generator plant proforma.

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

Effect on the Filing: The analyst needs to determine whether these costs should be included in the test year.

Finding 12: Taxes Other than Income

Audit Analysis: The total 2013 Personal and Real Estate Tax bills total \$12,372.97. The Utility has another account for property taxes of \$811.86 related to property taxes for prior years due to non-payment. The \$11,928.11 Regulatory Assessment Fee was calculated based on the revenues calculated by staff in Finding No. 5 (\$265,069 * .045). Payroll Taxes of \$8,565.80 were calculated using the payroll expenses per books, the applicable unemployment tax rates and the FICA tax rate.

Table 12.1

			Per November
	Per GL	Adjustments	2013 Due
Account	9/30/2013		Amount
Personal and Real			
Estate Tax	\$ 11,391.35	\$ 981.62	\$ 12,372.97
Other Prop. Back Taxes	\$ 811.86	\$ (811.86)	\$ -
Total Property Taxes	\$ 12,203.21	\$ 169.76	\$ 12,372.97
			Per Staff
			Adjusted Revenues
RAF	\$ 11,941.75	\$ (13.64)	\$ 11,928.11
			Per Staff Calculation
Payroll Tax	\$ 8,881.65	\$ (315.85)	\$ 8,565.80
Total TOTI	\$ 33,026.61	\$ (159.73)	\$ 32,866.88

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

Effect on the Filing: Total Taxes Other Than Income should be decreased by \$159.73.

Finding 13: Notes Payable

Audit Analysis: The Utility has two written and signed Promissory Notes owed to Jack Boyer, (Utility's owner), one for \$35,000 and the other for \$573,775. Both of these notes have an annual interest rate of 8% for the period January 2013 to December 2013. These notes were also outstanding as of September 30, 2013 for the same amount. The Utility indicated that it pays for part of the principal only when Contribution in Aid of Construction is received due to its cash flow problems. These notes were combined and continued to be outstanding as of January 2014.

There is an additional note with BB&T with an original balance at 12/30/2003 of \$78,782.64 and an outstanding balance as of 9/30/2013 of \$51,092.64. This note was renegotiated on 1/1/2014 for \$49,233.97 at an interest rate of 6.75% for 11 equal payments of \$920.43 for principal and interest starting in 2/1/2014. The twelfth and final payment is due on 1/1/2015. Because the notes keep rolling over each year, we are considering them Long Term Debt.

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

Effect on the Filing: The effect is noted in Exhibit 2.

Exhibits

Exhibit 1: Rate Base

Little Gasparilla Water Utility, Inc. Rate Base As of September 30, 2013 Docket No. 130265-WS

Description	Average Per Utility @09/30/2013	Adjustments	Finding No.	Average Per Audit @09/30/2013
Utility Plant In Service	\$1,376,196	(\$1,003,238)	Finding 1	\$372,958
		\$271	Finding 7	\$271
Total Plant in Service	\$1,376,196	(\$1,002,967)		\$373,229
Land and Land Rights	\$52,475	\$0		\$52,475
CIAC	\$0	(\$607,500)	Finding 4	(\$607,500)
	\$0	(\$450)	Finding 6	(\$450)
Total CIAC	\$0	(\$607,950)		(\$607,950)
Accumulated Amortization of CIAC	\$0	\$115,636	Finding 4	\$115,636
	\$0	\$6	Finding 6	\$6
Total Accumulated Amortization of CIAC	\$0	\$115,642		\$115,642
Accumulated Depreciation	(\$1,045,035)	\$914,611	Finding 1	(\$130,424)
		(\$4)	Finding 7	(\$4)
Total Accumulated Depreciation	(\$1,045,035)	\$914,607	Finding 1	(\$130,428)
Working Capital	\$21,670	(\$298)		\$21,373
Net Rate Base	\$405,306	(\$580,966)		(\$175,660)

Working Capital is calculated using 1/8th of O&M Expenses

Exhibit 2: Capital Structure

**Little Gasparilla Water Utility, Inc.
 Capital Structure
 September 30, 2013
 Docket No. 130265-WS**

Capital Component	Average Per Utility @09/30/2013	Adjustments	Average Per Audit @09/30/2013	Cost
Long Term Debt - BB&T	\$54,460	\$0	\$54,460	6.75%
Long Term Debt - Promissory Notes	\$608,775	\$0	\$608,775	8.00%
Common Stock	\$1,000	\$0	\$1,000	11.29%
Total Capital	\$663,235	\$0	\$663,235	

(a) Capital Structure was not reconciled to Rate Base because Rate Base was zero.

Exhibit 3: Net Operating Income

**Little Gasparilla Water Utility, Inc.
Net Operating Income
September 30, 2013
Docket No. 130265-WS**

Description	Per Utility @09/30/2013	Adjustments	Finding No.	Per Audit @09/30/2013
Revenues	\$276,331	\$7,638	Finding 5	\$283,969
		(\$18,900)	Finding 4 and 6	(\$18,900)
Total Revenues	\$276,331	(\$11,262)		\$265,069
Operation & Maintenance Expense	\$173,361	(\$4,231)	Finding 7	\$169,130
Depreciation Expense	\$26,214	(\$12,469)	Finding 1	\$13,745
		\$8	Finding 7	\$8
Total Depreciation	\$26,214	(\$12,461)		\$13,753
CIAC Amortization Expense	\$0	(\$11)	Finding 6	(\$11)
		(\$15,046)	Finding 4	(\$15,046)
Total CIAC Amortization Expense	\$0	(\$15,057)		(\$15,057)
Taxes Other Than Income	\$33,027	(\$160)	Finding 12	\$32,867
Operating Expense	\$232,602	(\$31,909)		\$200,693
Net Operating Income/(Loss)	\$43,729	\$20,647		\$64,376