

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: December 28, 2015
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 150199-WU
Company Name: Raintree Waterworks, Inc.
Company Code: WU969
Audit Purpose: Staff Assisted Rate Case
Audit Control No.: 15-286-2-1

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There is no confidential work papers associated with this audit.

LMD/cp

Attachment: Copy of Letter

cc: Office of Auditing and Performance Analysis File

State of Florida



Public Service Commission

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

Auditor's Report

Raintree Waterworks, Inc.
Staff-Assisted Rate Case

Twelve Months Ended July 31, 2015

Docket No. 150199-WU
Audit Control No. 15-286-2-1
November 18, 2015

A handwritten signature in black ink, appearing to read "Tomer".

Tomer Kopelovich
Audit Manager

A handwritten signature in black ink, appearing to read "Intesar Terkawi".

Intesar Terkawi
Audit Staff

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

Linda Hill
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated October 12, 2015. We have applied these procedures to the attached schedules prepared by the audit staff in support of Raintree Waterworks, Inc.'s request for a Staff Assisted Rate Case in Docket No.150199-WU.

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

Objectives and Procedures

Background

Definitions

Raintree or Utility refers to Raintree Waterworks, Inc.

Test year refers to the 12-months ended July 31, 2015.

Utility Information

Raintree Waterworks, Inc. is a Class C water utility serving approximately 113 customers in Lake County. The Utility's rate base was last established as of May 23, 2014, by Order No. PSC-14-0692-PAA-WU, issued December 15, 2014, in Docket No. 140121-WU. The Utility files a U.S. Income Tax Return for an S Corporation.

General

Utility Books and Records

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

Procedures: We reviewed the Utility's books and records. The Utility's books and records 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, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We determined the beginning balances of UPIS as of May 23, 2014, established in Order PSC-14-0692-PAA-WS and reconciled these amounts to the Utility's general ledger. We scheduled UPIS activities from that date through July 31, 2015. The Utility had one addition to plant that we removed. There was no associated retirement to consider. We determined the year end and average balances as of July 31, 2015. Our recommended adjustments to UPIS are discussed in Finding 1.

Land & Land Rights

Objectives: The objectives were to determine whether utility land was: 1) Recorded at original cost, 2) Owned or secured under a long-term lease agreement, and that 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We determined the beginning balance of Land as of May 23, 2014 established in Order PSC-14-0692-PAA-WS and reconciled these amounts to the Utility's general ledger. There were no additions to or sale of land. We reviewed the Utility's annual report, general ledger, and searched the Lake County Tax Collector's website for additional activity related to the Utility's land and determined that no additions were made. We determined the year end and average balances as of July 31, 2015. No exceptions were noted.

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, Florida Administrative Code (F.A.C.), 2) Retirements are recorded when an asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We determined the beginning balances of Accumulated Depreciation by account as of May 23, 2014, established in Order PSC-14-0692-PAA-WS and reconciled these amounts to the Utility's general ledger. We depreciated the plant assets in compliance with Rule 25-30.140 F.A.C. We determined the year end and average balances as of July 31, 2015. Our recommended adjustments to Accumulated Depreciation are discussed in Finding 2.

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, and 4) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We determined the beginning balances of CIAC as of May 23, 2014, established in Order PSC-14-0692-PAA-WS and reconciled these amounts to the Utility's general ledger. We verified with the Utility that there were no additions or retirements to CIAC. We determined the year end and average balances as of July 31, 2015. No exceptions were noted.

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, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We determined the beginning balances of Accumulated Amortization of CIAC balance as of May 23, 2014, that was determined by Order PSC-14-0692-PAA-WS and reconciled these amounts to the Utility's general ledger. We amortized the CIAC through July 31, 2015. We determined the year end and average balances as of July 31, 2015. No exceptions were noted.

Working Capital

Objective: The objective was to calculate the Utility's Working Capital balance in compliance with Commission rules.

Procedures: We calculated Working Capital as of July 31, 2015, using one-eighth of Operation and Maintenance (O&M) Expense as required by Rule 25-30.433(2), F.A.C.

Capital Structure

Objective: The objective was to determine the components of the Utility's capital structure.

Procedures: We reviewed the Utility's general ledger and determined that the Utility's Capital Structure is composed of common equity only. We verified with the Utility that it has no debt. We, also, verified that the Utility does not collect customer deposits nor is there a tariff in effect for customer deposits. No exceptions were noted.

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 summarized the Utility's gallonage by customer account for the test year using the Utility's Billing Report. We normalized the number of bills issued by adjusting for customers moving in or out to reflect 12 months of bills for each property. Also, The audit staff calculated revenue using the most recent tariff that was issued on June 26, 2015. We calculated Revenues for water using the number of bills and gallonages. We compared the calculated Revenues obtained with the water Revenues reported in the general ledger. We also verified several customers' bills to determine if the correct tariff rates were used. We reviewed Miscellaneous Revenues to include late fee charges, returned check charges, and reconnect fees and compared to the tariffs. Our recommended adjustments to Revenues are discussed in Finding 3.

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 ensured all expenses were correctly classified, and verified that they were recurring in nature. We verified each expense against the invoice and its supporting documentation. Our recommended adjustments to O&M are discussed in Finding 4.

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 using the rates established by Rule 25-30.140, F.A.C. Our recommended adjustments to Depreciation Expense are discussed in Finding 2.

Taxes Other than Income

Objectives: The objectives were to determine whether Taxes Other Than Income Expense (TOTI) are: 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 Real Estate Taxes and Regulatory Assessment Fees (RAF). We recalculated RAFs based on test year Revenues. Our recommended adjustments to TOTI are discussed in Finding 5.

Audit Findings

Finding 1: Utility Plant in Service

Audit Analysis: The Utility's general ledger reflects UPIS balance of \$252,519 as of July 31, 2015. The audit staff determined a UPIS balance of \$251,769 as of July 31, 2015.

Audit staff removed the \$750 application fee for the transfer audit in Docket No. 140121-WU from Account 302.

Table 1-1

Acct		Test Year End: Utility	Audit	Balance per Audit
No.	Account Name	07/31/15	Adjustment	7/31/2015
301	Organization	\$2,587	\$0	\$2,587
302	Franchises		0	0
303	Land and Land Rights	0	0	0
304	Structures and Improvements	13,979	0	13,979
305	Collecting and Impounding	0	0	0
306	Lake River and Other Intakes	0	0	0
307	Wells and Springs	24,733	0	24,733
308	Infiltration Galleries	0	0	0
309	Supply Mains	4,179	0	4,179
310	Power Generation Equipment	0	0	0
311	Pumping Equipment	40,241	0	40,241
320	Water Treatment Equipment	53,968	0	53,968
330	Distribution Reservoirs	11,448	0	11,448
331	Transmission and Distribution Mains	62,668	0	62,668
333	Services	11,580	0	11,580
334	Meter & Meter Installations	1,268	0	1,268
335	Hydrants	12,879	0	12,879
336	Backflow Devices	6,500	0	6,500
340	Office Furniture & Equipment	5,739	0	5,739
TOTAL		\$251,769	\$0	\$251,769

Effect on the General Ledger: Reduce UPIS by \$750.

Effect on Staff Prepared Exhibits: Reduce UPIS by \$750 and reflect an average UPIS balance of \$251,769.

Finding 2: Accumulated Depreciation

Audit Analysis: The Utility’s general ledger reflects an Accumulated Depreciation balance of \$201,495 as of July 31, 2015. Audit staff calculated Accumulated Depreciation to be \$201,473 using depreciation rates prescribed in Rule 25-30.140, F.A.C. The Utility’s general Ledger reflects Depreciation Expense of \$10,943 as of July 31, 2015. We calculated Depreciation Expense to be \$10,921 for the 12-months ended July 31, 2015.

The Accumulated Depreciation per Audit Staff is displayed in Table 2-1:

Table 2-1

Acct No.	Account	Accum Dep per Utility 7/31/15	Audit Adjustment	Balance per Audit 7/31/15
301	Organization	\$199	\$0	\$199
302	Franchises	22	(22)	0
303	Land and Land Rights	0	0	0
304	Structures and Improvements	7,905	0	7,905
305	Collecting and Impounding Reservoirs	0	0	0
306	Lake, River and Other Intakes	0	0	0
307	Wells and Springs	18,659	0	18,659
308	Infiltration Galleries & Tunnels	0	0	0
309	Supply Mains	2,957	0	2,957
310	Power Generating Equipment	0	0	0
311	Pumping Equipment	35,898	0	35,898
320	Water Treatment Equipment	54,036	0	54,036
330	Distribution Reservoirs & Standpipes	9,741	0	9,741
331	Trans. & Dist. Mains	46,303	0	46,303
333	Services	9,291	0	9,291
334	Meter & Meter Installations	155	0	155
335	Hydrants	9,041	0	9,041
336	Backflow Prevention Devices	2,899	0	2,899
340	Other Plant and Miscellaneous Equipment	4,458	0	4,458
	Total	\$201,495	(\$22)	\$201,473

Effect on the General Ledger: Reduce Accumulated Depreciation by \$22.

Effect on Staff Prepared Exhibits: Reduce Accumulated Depreciation by \$22 and reflect an average Accumulated Depreciation balance of \$195,043.

Finding 3: Operating Revenue

Audit Analysis: The Utility's general ledger reflects total Water Revenues of \$40,670 for the 12-months ended July 31, 2015. The Utility was approved a price index effective June 26, 2015 and did not apply the new rates in July 2015. Audit staff calculated Water Revenues for the test year using this tariff for July 2015 to be \$41,539. Miscellaneous Revenue is for convenience fees per the Utility's tariff.

Table 3-1 summarizes audit adjustments to Water Revenues for the test year.

**Table 3-1
Water Revenues**

Description	Utility Balance 7/31/2015	Audit Adjustments	Audit Balance 7/31/2015
Residential Revenue	\$40,478	\$849	\$41,327
General Revenue	182	20	202
Miscellaneous Revenue	10	-	10
Total Revenues	\$40,670	\$869	\$41,539

Audit staff also calculated revenues to be \$42,126 for 12 months using the most recent tariff that was issued on June 26, 2015 to be \$42,126. We did not make this adjustment but provide it for analyst use.

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

Effect on Staff Prepared Exhibits: Adjust NOI by increasing Revenues by \$869 for the test year.

Finding 4: Operation and Maintenance Expense

Audit Analysis: The Utility’s general ledger reflects Water O&M Expense of \$34,839 for the test year. We have made adjustments to test year expenses based on our review of the supporting documentation. A summary of the adjustments follows in Table 4-1:

Table 4-1

No.	Account Title	Balance per Utility 7/31/15	Audit Adjust	Balance per Audit 7/31/15
603	Salaries: Officers, Directors, Etc.	\$3,000	\$0	\$3,000
615	Purchased Power	4,601	0	4,601
618	Chemicals	344	0	344
631	Contractual Services - Acctg.	2,000	(1,000)	1,000
633	Contractual Services - Legal	590	0	590
636	Contractual Services - Other	21,744	(0)	21,744
657	Insurance-General Liability	945	370	1,314
670	Bad Debt Expense	568	0	568
675	Miscellaneous Expenses	1,048	(548)	500
	Total O&M Expense	\$34,839	(\$1,178)	\$33,661

Account 631 – Contractual Services – We reduced this account by \$1,000 for lack of supporting documentation.

Account 657 – Insurance General Liability – We increased this account by \$370 due to an increase in rates of the insurance contract effective October 2014.

Account 675 – Miscellaneous Expenses – We reduced this account by \$548 due to lack of supporting documentation.

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

Effect on Staff Prepared Exhibits: We reduced O&M Expense by \$1,178.

Based on the total O&M Expense of \$33,661, we calculated Working Capital to be \$4,208 for the test year in accordance with Rule 25-30.433 F.A.C.

Finding 5: Taxes Other than Income

Audit Analysis: The Utility recorded \$1,062 as an accrual for real estate taxes for the test year ending July 31, 2015. Based on our review of the real estate taxes bill we determined that real estate taxes to be \$671 for a difference of (\$391). Based on the revenue determined in Finding 3, we recalculated RAF to be \$1,869 for a difference of \$754 as shown in Table 5-1. If we annualized Water Revenues then RAF would be \$1,896 for a difference of \$780 as shown in Table 5-2.

Due to the timing difference between the test year and the fiscal year that the fees are paid on, there is a difference between the imputed fees and fees paid. TOTI were increased by \$362 to reflect the imputed RAF.

Table 5-1

Water	Utility Balance 7/31/15	Adjustments	Audit Balance 7/31/15
Real Estate Taxes	\$1,062	(\$391)	\$671
Regulatory Assessment Fees	1,115	754	1,869
Total	\$2,178	\$362	\$2,540

Table 5-2

Annualized Water Revenues

Water	Utility Balance 7/31/15	Adjustments	Audit Balance 7/31/15
Real Estate Taxes	\$1,062	(\$391)	\$671
Regulatory Assessment Fees	1,115	780	1,896
Total	\$2,178	\$389	\$2,566

Effect on the General Ledger: None

Effect on Staff Prepared Exhibits: We increased TOTI expenses by \$362.

Exhibits

Exhibit 1: Rate Base

Raintree Waterworks, Inc.

Rate Base

As of July 31, 2015

Description	Utility Balance 7/31/15	Adjustments	Balance Per Audit 7/31/15	Simple Average Per Audit
Utility Plant in Service	\$251,769	0	\$251,769	\$251,769
Land	\$5,740	0	5,740	\$5,740
Accumulated Depreciation	(\$201,495)	22	(201,473)	(\$195,043)
CIAC	(\$29,750)	0	(29,750)	(\$29,750)
Amortization of CIAC	\$15,143	0	15,143	\$14,382
Working Capital	\$0	4,208	4,208	\$4,208
Total Rate Base	\$41,407	\$4,230	\$45,636	\$51,305

Exhibit 2: Capital Structure

Raintree Waterworks, Inc.
 Capital Structure
 As of July 31, 2015

Description	Balance Per GL @8/1/14	Balance Per GL @7/31/15	Audit Adjust- ments	Balance Per Audit @7/31/15	Simple Average Per Audit	Ratio	Cost Rate	Weighted Cost Of Capital
Common Equity	\$49,121	\$49,121	\$0	\$49,121	\$49,121	100.00%	8.74%	8.74%
L/T Debt-Note Payab	0	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	0	0	0	0	0	0.00%	0.00%	0.00%
Other	0	0	0	0	0	0.00%	0.00%	0.00%
Total	\$49,121	\$49,121	\$0	\$49,121	\$49,121	100%		8.74%

(1) Equity cost based on FPSC Order No. 15-0259-PAA-WS issued 7/2/15.

Exhibit 3: Net Operating Income

Raintree Waterworks, Inc.

Net Operating Income

As of July 31, 2015

Description	Utility Balance 7/31/15	Audit Adjust.	Balance per Audit 7/31/15
Operating Revenues	\$40,670	\$869	\$41,539
Operating Expenses			
Operation & Maintenance	\$34,839	(1,178)	\$33,661
Depreciation Expense	\$10,943	(22)	\$10,921
Amortization Expense (CIAC)	(\$1,289)	0	(\$1,289)
Taxes Other Than Income	\$2,178	362	\$2,540
Total Operating Expenses	46,670	(837)	45,833
Operating Income	(\$6,000)	\$1,706	(\$4,295)