

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: October 18, 2016
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 160165-SU
Company Name: ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.
Company Code: SU848
Audit Purpose: A1b – Staff Assisted Rate Case
Audit Control No.: 16-222-1-1

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 are no confidential work papers associated with this audit.

LMD/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



Public Service Commission

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

Auditor's Report

ESAD Enterprise, Inc. d/b/a Beaches Sewer System
Staff-Assisted Rate Case

Twelve Months Ending June 30, 2016

Docket No. 160165-SU
Audit Control No. 16-222-1-1
September 28, 2016

A handwritten signature in blue ink, appearing to read "M Glover", written over a horizontal line.

Marisa N. Glover
Audit Manager

A handwritten signature in blue ink, appearing to read "Lynn M Deamer", written over a horizontal line.

Lynn M. Deamer
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report set forth by the Division of Accounting and Finance in its audit service request dated August 9, 2016. We have applied these procedures to the attached schedules prepared by the audit staff in support of ESAD Enterprise, Inc. d/b/a Beaches Sewer System request for a Staff-Assisted Rate Case in Docket No.160165-SU.

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

General

Definitions:

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform Systems of Accounts as adopted by Rule 25-30.115, Florida Administrative Code (F.A.C.)

The test year is the twelve months ended June 30, 2016

Background:

ESAD Enterprise, Inc. d/b/a Beaches Sewer System is a Class C utility serving approximately 306 wastewater customers in Gulf County. Beaches received a certificate No. 422-S by transfer in Order No. PSC-02-1299-PAA-WU issued September 23, 2002 in Docket 011379-SU . Rate base was established as of December 1, 2000. The plant has been in service since 1987.

Utility Books and Records

Objectives: The objective was to determine whether the Utility maintains its books and records in conformity with NARUC USOA.

Procedures: We reviewed the Utility's accounting system by examining the records provided for this proceeding and compared them to the NARUC USOA. Finding 1 discusses the utility's books and records.

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 reconciled the beginning balances for UPIS, as of December 1, 2000 from Order No. PSC-02-1299-PAA-SU to the general ledger and noted the ordered adjustments were not made. We scheduled UPIS activity from December 31, 2000 through June 30, 2016. We traced asset additions to supporting documentation. We ensured that retirements were made when an asset was removed or replaced. We determined the year end and average balances as of June 30, 2016. Finding 2 discusses our recommended adjustments to UPIS.

Land & Land Rights

Objectives: The objectives were to determine whether the utility land is: 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 case proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balance of land, as of December 31, 2000 from Order No. PSC-02-1299-PAA-SU to the general ledger. We verified that the land is owned by the Utility, and determined that the land where the lift station is located was purchased since the last Order No. PSC-02-1299-PAA-SU. We determined the year end and average balances as of June 30, 2016. 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, 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 reconciled the beginning balances for Accumulated Depreciation, as of December 31, 2000 from Order No. PSC-02-1299-PAA-SU to the general ledger and noted the ordered adjustments were not made. We calculated annual accruals to accumulated depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C., from December 31, 2000 to June 30, 2016. We determined the year end and average balances as of June 30, 2016. Finding 3 discusses our recommend adjustments to accumulated depreciation

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 in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for CIAC, as of December 31, 2000 from Order No. PSC-02-1299-PAA-SU to the general ledger and noted the ordered adjustments were not made. We determined the year end and average balances as of June 30, 2016. Finding 4 discusses our recommended adjustments to CIAC.

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 reconciled the beginning balances for Accumulated Amortization of CIAC, as of December 31, 2000 from Order No. PSC-02-1299-PAA-SU to the general ledger and noted the ordered adjustments were not made. We scheduled accumulated amortization of CIAC as per

Commission Order PSC-02-1299-PAA-SU and recalculated amortization based upon composite depreciation rates from December 31, 2000 to June 30, 2016. We determined the year end and average balances as of June 30, 2016. Finding 5 discusses our recommended adjustment to accumulated amortization of CIAC.

Working Capital

Objectives: The objective was to determine whether the Utility's working capital balance is properly calculated in compliance with Commission rules.

Procedures: We calculated the Utility's working capital balance as of June 30, 2016 using one eighth of operation and maintenance expense as determined by audit staff required by Rule 25-30.433 (2), F.A.C. Finding 9 discusses our recommended adjustment to working capital.

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 determined that the Utility's capital structure consists of common equity, long-term debt, and customer deposits. We determined the year end and average Capital Structure balance and its weighted average cost as of June 30, 2016. Findings 6 and 7 discuss our recommended adjustments to capital structure.

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 NARUC USOA

Procedures: We tested the reasonableness of the utility revenues by multiplying the rates per tariff by the sales by customer provided by the Utility. We calculated miscellaneous service charges by multiplying the Commission approved tariff by the initial connection fees and the normal reconnect fees. Audit staff requested customer bills that were not provided by the Utility.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether operation and maintenance expenses (O&M) 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 reviewed the invoices provided in support of the Utility's O&M expense for the test year. We determined that all expenses were supported, were correctly classified, and verified that they were recurring in nature. Finding 8 discusses our recommended adjustments to O&M expense.

Depreciation and Amortization

Objectives: The objective was to determine the Utility's depreciation and CIAC amortization expense for the twelve months ended June 30, 2016 using the Commission authorized rates.

Procedures: We compiled a schedule from audited UPIS items and recalculated depreciation based on depreciation rates authorized by Rule 25-30.140, F.A.C. for the test year. We also recalculated amortization of CIAC using Commission approved rates for the test year. Findings 3 and 5 discuss our recommended adjustments to depreciation and amortization expense.

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 NARUC USOA.

Procedures: We scheduled TOTI based on documentation provided by the Utility. We verified property taxes and local business tax incurred for the test year. We recalculated the 2015 RAF form and we calculated the test year Regulatory Assessment Fee (RAF) using the approved RAF rate and the audited revenue balances. In addition we calculated payroll taxes based on salaries of the Utility employees using the Social Security rate and the Medicare rate. Finding 10 discusses our recommended adjustments to TOTI.

Audit Findings

Finding 1: Books and Records

Audit Analysis: Rule 25-30.115, F.A.C., requires Florida utilities to maintain their books and records in conformity with the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA).

NARUC, Class C, Accounting Instruction, states,

Each utility shall keep its books of account, and all other books, records and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information to any item included in any account. Each entry shall be supported by such detailed information will permit a ready identification, analysis and verification of all facts relevant thereto.

ESAD Enterprise, Inc. d/b/a Beaches Sewer System records are not consistent with the NARUC USOA. We determined that the Utility maintains its records on a calendar year basis. The Utility does not use the correct accounts. Not all invoices audit staff needed to review were provided. Unless otherwise noted, audit staff used the general ledger balances for the Utility.

Finding 2: Utility Plant in Service

Audit Analysis: The Utility recorded \$630,388 for plant in service on its general ledger as of June 30, 2016. Audit staff determined plant in service as of June 30, 2016 to be \$453,780. We reconciled the beginning balances from Order No. PSC-02-1299-PAA-SU to the general ledger, and determined that the Utility did not make any of the ordered adjustments to its ledger.

Account 351 – Organization. The audit adjustment is to decrease this account by \$11,690 which reflects the prior ordered adjustment and to remove \$14,726 for unsupported documentation. We removed \$939 from this Account and reclassified to Account 390.

Account 353 – Land. The audit adjustment is to increase this account by \$7,500 for the addition, which was recorded incorrectly in Account 370.

Account 361 – Collection Sewer- Gravity. The audit adjustment is to decrease this account by \$70,975. This reflects the ordered adjustment of \$48,009 from the prior transfer, and \$22,966 of additional documentation which was not provided.

Account 370 Receiving Wells. The audit adjustment is to increase this account by \$2,416 which reflects the prior ordered adjustment and to remove \$7,500 from this Account for land purchase and moved it to Account 353.

Account 380 – Treatment and Disposal of Equipment. The audit adjustment is to decrease this account by \$134,399 which reflects the prior ordered adjustment and to remove \$4,460 due to unsupported documentation.

Account 390 Office Furniture and Equipment. The audit adjustment is to increase this account by \$939 for the purchase of a copier which was recorded in Account 351..

Account 391 – Transportation Equipment. The audit adjustment is to decrease this account by \$41,697 for the purchased vehicles. The 2010 Cadillac SRX, is driven by F. Seifert who pays for the maintenance of the vehicle. The 1996 Ford F150, was driven by J. Farrell who paid for the maintenance of the vehicle. The 2014 Chevrolet Silverado was purchased outside of the test year. According to F. Seifert, J. Farrell will drive the Silverado and the F150 will be put up for sale. The Utility does not keep a mileage book in order to calculate how many miles are driven for personal use versus Utility. Audit staff is removing cost from plant and related expenses because we are unable to determine the utility use of the vehicles. Audit staff reviewed the Bill of Sales for the vehicles, but could not determine if there are any related loans because of lack of supporting documentation. The analyst should pursue this issue and determine which vehicles are utility related.

Account 393 – Tools, Shop, and Garage Equipment. The audit adjustment to increase this account by \$199 consists of one addition in 2012 that was not booked.

The utility plant needs to be decreased by \$275,312 as shown in Table 2-1.

Table 2-1

Acct. No.	Acct. Name	Balance Per Utility as of June 30, 2016	Audit Adjustment	Balance Per Audit as of June 30, 2016	Simple Average
351	Organization	\$ 28,643	\$ (27,335)	\$ 1,308	\$ 1,308
353	Land	\$ 14,364	\$ 7,500	\$ 21,864	21,864
354	Structures and Improvements	\$ 2,200	\$ -	\$ 2,200	2,200
360	Collection Sewer- Force	\$ 5,985	\$ -	\$ 5,985	5,985
361	Collection Sewers- Gravity	\$ 216,232	\$ (70,975)	\$ 145,257	145,257
363	Service to Customers	\$ 980	\$ -	\$ 980	980
370	Receiving Wells	\$ 37,150	\$ (5,084)	\$ 32,066	32,066
371	Pumping Equipment	\$ 288	\$ -	\$ 288	287
380	Treatment and Disposal Equip.	\$ 281,117	\$ (138,859)	\$ 142,258	142,258
390	Office Furniture and Equipment	\$ -	\$ 939	\$ 939	939
391	Transportation Equipment	\$ 41,697	\$ (41,697)	\$ -	-
393	Tools, Shop, and Garage Equip.	\$ 1,732	\$ 199	\$ 1,931	1,931
	Total	\$ 630,388	\$ (275,312)	\$ 355,076	\$355,075

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

Effect on the Filing: Audit staff determined UPIS to be \$355,076 and the simple average plant in service to be \$355,075 as of June 30, 2016.

Finding 3: Accumulated Depreciation and Depreciation Expense

Audit Analysis: According to the Utility's general ledger, the accumulated depreciation balance was \$509,117 as of June 30, 2016 and test year depreciation expense was \$7,306. Audit staff was unable to determine if the ordered adjustment of \$66,607 was made by the utility. We removed the reserve for transportation equipment cost from accumulated depreciation and depreciation expense from the utility because we are unable to determine the utility use of the vehicles. Audit staff recalculated accumulated depreciation and depreciation expense using the audited plant balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. as shown in Table 3-1.

Table 3-1

	Audit Balance Accum Dep 6/30/2016	Simple Average	Audit Dep. Expense 6/30/2016
351 Organization	\$ (1,086)	\$ (1,070)	\$ 33
354 Structures and Improvements	(2,200)	(2,200)	-
360 Collection Sewers-Force	(5,985)	(5,985)	-
361 Collection Sewers-Gravity	(120,064)	(118,248)	3,631
363 Services to Customers	(810)	(796)	28
370 Receiving Wells	(32,066)	(32,066)	-
371 Pumping Equipment	(285)	(276)	19
380 Treatment and Disposal Equip.	(142,258)	(142,258)	-
390 Office Furniture and Equip	(876)	(845)	63
391 Transportation Equip.	-	-	-
393 Tools, Shop, and Garage Equipment	(964)	(900)	129
Total:	\$ (306,595)	\$ (304,644)	\$ 3,902
Utility balance - 6/30/2016:	(509,117)		7,306
Audit Adjustment:	\$ 202,522		\$ (3,404)

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

Effect on the Filing: Audit staff determined accumulated depreciation and depreciation expense to be \$306,595 and \$3,902, respectively for the test year ended June 30, 2016. We also determined the simple average for accumulated depreciation to be \$304,644.

Finding 4: Contributions-in-Aid-of-Construction CIAC

Audit Analysis: The Utility recorded \$247,554 for CIAC on its general ledger as of June 30, 2016. We reviewed CIAC balances in Order PSC-02-1299-PAA-SU and noted the utility has not made the ordered adjustment to decrease CIAC by \$31,996. Audit staff was unable to determine the reason for the additional \$1,500 variance between the general ledger and audit staff calculations.

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

Effect on the Filing: Audit staff determined CIAC to be \$281,050 for the test year ended June 30, 2016. We also determined the simple average for CIAC to be \$280,925.

Finding 5: Accumulated Amortization of CIAC and Amortization Expense

Audit Analysis: According to the Utility’s general ledger, the wastewater accumulated amortization of CIAC balance was \$188,335 as of June 30, 2016. We also noted the utility did not make the ordered adjustment of \$34,296 to increase accumulated amortization of CIAC. Audit staff recalculated accumulated amortization of CIAC and composite rates as per Rule 25-30.140(2), F.A.C. as shown in Table 5-1.

Table 5-1

	Audit Balance AA CIAC 6/30/2016	Simple Average	Audit Balance Amortization Expense
AA of CIAC - Main Extension	\$ 54,710	\$ 53,537	
AA of CIAC - Plant Capacity	63,619	61,508	
AA of CIAC -System Capacity	144,308	141,522	
Total:	\$ 262,637	\$ 256,567	\$ (12,810)
Utility balance - 6/30/2016:	188,335		(6,407)
Audit Adjustment:	\$ 74,302		\$ (6,403)

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

Effect on the Filing: Audit staff determined accumulated amortization of CIAC to be \$262,637, and \$12,810 for amortization expense for the test year ended June 30, 2016. We also determined the simple average for accumulated amortization of CIAC to be \$256,567. At the current rate of amortizing CIAC, CIAC will be fully amortized by May 2018.

Finding 6: Capital Structure

Audit Analysis: The Utility recorded (\$55,737) for common equity on its general ledger as of June 30, 2016. This consists of \$5,000 in capital stock, and \$252,400 in contributed capital and (\$313,187) in retained earnings. The Utility provided no supporting documentation. The negative equity was adjusted to zero.

The long-term debt total is \$217,870. The first loan is \$2,958 at 7.25% for the purchase of a vehicle. We removed this loan because we removed the transportation from plant and other expenses. Audit staff was unable to determine the Utility use for the vehicles. The second loan is \$214,912 at 5.50% for the payoff from Centennial Bank to Coastal Community Bank for the original purchase of the Utility.

Audit staff requested the Utility to provide documentation for customer deposit balances from January 1, 2001 to June 30, 2016. This should include, but not be limited to interest accruals, procedures collecting and refunding deposits. Procedures for distribution of interest to customers, a list of customers by account, and current status of each, and to explain whether all customer deposits are refunded and if there is interest collected on the deposits. The tariff for customer deposits is \$57. The Utility did not provide any support for customer deposits'. Audit staff accepted the Utility balance.

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

Effect on the Filing: Audit staff determined common equity to be zero as of June 30, 2016. We reduced long term debt by \$2,958. See Exhibit 2.

Finding 7: Operations and Maintenance Expense

Audit Analysis: The Utility recorded \$131,861 for operation and maintenance expense on its general ledger for the twelve months ended June 30, 2016. Audit staff determined operation and maintenance expense to be \$82,298. We noted the following:

- Account 703 – Salaries & Wages - Officers. The general ledger and support documentation did not match. We determined from the support documentation that Account 703 should be \$36,592. F. Seifert, CFO, works approximately 31.50 hours per week dealing with customer billing and mail. Seifert's annual salary for the test year is \$32,400. J. Farrell, COO, works approximately 10-15 hours per week assisting the plant operator and working with contractors. Farrell's annual salary for the test year is \$10,800 based on the 2015 W-2. We are decreasing this account by \$15,074 due to no supporting documentation. Audit staff also removed \$6,608 for payroll taxes, see Finding 10.
- Account 715- Purchased Power. We determined that the Utility's general ledger had a balance of \$8,335. Based on the support documentation provided by the Utility, audit staff determined the balance to be \$8,595. We increased this Account by \$260.
- Account 730 – Contractual Services – Billing. We noted that the Utility included \$18,545 in this Account. We reclassified the \$18,545 (\$12,000 + \$1,545 + \$5,000) to Accounts 732, 735, and 736.
- Account 732 – Contractual Services – Accounting. We increased this account by \$5,000 to reflect actual supporting documentation. We removed this amount from Account 730. The support documentation was for CPA services provided by F. Seifert.
- Account 735 – Contractual Services – Testing. We increased this account by \$1,545 to reflect actual supporting documentation. We removed this amount from Account 730.
- Account 736 – Contractual Services – Other. We increased this account by \$12,000 to reflect actual supporting documentation. We removed this amount from Account 730. This is for the contractual services of R. Davis who ceased to be the Operator for the wastewater plant as of July 15, 2016. M. Gammon Operator, was hired July 8, 2016 outside the test year. His job duty is to make six visits each week for 3 hours at a time to maintain and monitor the wastewater system. We did not include the cost in this audit.
- Account 740 – Rent Expense. We made no adjustment, however, see Finding 10.
- Account 755 – Vehicle Insurance. The Utility recorded \$5,856 for insurance expense on its general ledger as of June 30, 2016. Audit staff determined insurance expense to be \$5,856. However, audit staff removed transportation equipment cost from plant and related expenses from the utility because we are unable to determine the utility use of the vehicles.
- Account 775 – Miscellaneous Expense. We determined the Utility's general ledger had a balance of \$27,928. Audit staff reviewed the Verizon bills and noticed three different phone numbers. According to F. Seifert all three phone lines belong to him. Audit staff removed \$612 for a twelve month period from the Verizon bill for the following: late fees (\$35), second phone line (850-227-8394, (\$328)), and the iPad charge (\$121 for twelve months), along with a portion of the taxes (\$128). Supporting documentation was not

provided in the amount of \$11,227. Audit staff was unable to determine what consists of this balance. Total adjustment in Account 775 is \$11,839.

Audit staff reduced the Utility's Operations and Maintenance Expense balance by \$39,117, as shown in Table 9-1

Table 9-1

Description	Account	Balance Per Utility as of 06/30/2016	Audit Adjustment	Balance Per Audit as of 06/30/2016
Salaries and Wages - Officers, Directors and Majority Stockholders	703	58,274	(21,682)	36,592
Purchased Power	715	8,335	260	8,595
Chemicals	718	2,752	-	2,752
Contractual Services - Billing	730	18,545	(18,545)	-
Contractual Services- Accounting	732	-	5,000	5,000
Contractual Services - Testing	735	-	1,545	1,545
Contractual Services - Other	736	-	12,000	12,000
Rental of Building/Real Property	740	7,200	-	7,200
Insurance - Vehicle	755	5,856	(5,856)	-
Bad Debt Expense	770	2,971	-	2,971
Miscellaneous Expenses	775	27,928	(11,839)	16,089
Total O & M Expenses		\$ 131,861	\$ (39,117)	\$ 92,744
Working Capital is 1/8 of O&M Expenses				\$ 11,593

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

Effect on the Filing: Audit staff determined the Utility's operation and maintenance expense to be overstated by \$39,117 and should be reduced to \$92,744 for the test year ended June 30, 2016. Working Capital is calculated to be \$11,593.

Finding 8: Rent

Audit Analysis: We noted that the Utility's general ledger has a balance of \$7,200. The Utility is being charged \$600 per month for rent by Frank and Donna Seifert. The owner Mr. Seifert also runs a CPA firm out of the same building. We requested support for how the \$600 was allocated for the Utility portion, as well as mortgages, lease agreements, and cancelled checks.

In response to audit staff's document request, the Utility owner provided the following statement:

“What the mortgage on the property is, if there is one, has no bearing on the rent paid. The question “is the rent fair and reasonable”. We asked Zillow.com which is regarded to be fairly accurate on property values or rent was furnished. They shows the rent on the building based on local values to be \$1,200 a month. The Utility has a lease for half of the building for \$600 a month, which includes utilities, insurance, repairs and maintenance, property taxes, use of fax machine, use of copier, use of computers and printers, and use of office furniture”.

However, Audit staff determined per the Utility's general ledger, and supported invoices the copier purchased on July 29, 2002, in the amount of \$939.46, was booked in Account 351. We reclassified this to Account 390. The computer purchased on January 22, 2001, in the amount of \$627.15, was booked in Account 351.

A review of Gulf County official public records turned up a balloon mortgage for the property located at 509 E. 4th Street Port St. Joe, FL 32456 which is where the Utility has its office space. This is a five year balloon mortgage payment.

Effect on the General Ledger: None

Effect on the Filing: Audit staff defers to the analyst to determine what the appropriate allocated portion should be charged to the Utility for rent and other office expenses.

Finding 9: Taxes Other than Income

Audit Analysis: According to the Utility's general ledger, the TOTI balance was \$13,284 for the twelve months ended June 30, 2016. Audit staff determined that the TOTI balance amount should be \$17,739 as shown in Table 11-1.

Table 11-1

Description	Per Utility	Adjustments	Per Audit
Real Property Tax	\$ 6,976	\$ (1,902)	\$ 5,074
Tangible Property Tax	\$ -	\$ -	\$ -
Payroll Tax	\$ -	\$ 6,608	\$ 6,608
Regulatory Assessment Fees (RAF)	\$ 6,007	\$ (100)	\$ 5,907
Other	\$ 300	\$ (150)	\$ 150
Total	\$ 13,284	\$ 4,455	\$ 17,739

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

1. We removed \$1,902 from Account 408.1 – Taxes-Other because the Utility did not take a discount for paying early.
2. We increased Account 408.2 – Payroll Taxes by \$6,608 because this amount was originally recorded with the salary expense. The \$6,608 was removed from Account 703.
3. We decreased Account 408.3 – Regulatory Assessment Fees by \$100. Based off of audit staff calculations the RAF should be \$5,907.
4. We decreased Account 408.4- Other by \$150. The Utility recorded \$300 for state filing fees. This should only be \$150 per year.

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

Effect on the Filing: Audit staff determined the Utility's TOTI to be \$17,739 for the test year ended June 30, 2016.

Exhibits

Exhibit 1: Rate Base

**ESAD Enterprise, Inc. d/b/a Beaches Sewer System
Staff Assisted Rate Case
Docket No. 160165-SU; ACN 16-222-1-1
Rate Base Schedule
As of June 30, 2016**

Description	Balance Per Utility as of June 30, 2016	Audit Adjustment	Balance Per Audit as of June 30, 2016	Test Year Average
Utility Plant in Service	\$ 616,024	\$ (282,812)	\$ 333,212	\$ 333,212
Land & Land Rights	\$ 14,364	\$ 7,500	\$ 21,864	\$ 21,864
Accumulated Depreciation	\$ (509,117)	\$ 202,522	\$ (306,595)	\$ (304,643)
Contributions in Aid of Construction	\$ (247,554)	\$ (33,496)	\$ (281,050)	\$ (280,925)
Accumulated Amortization of CIAC	\$ 188,335	\$ 74,302	\$ 262,637	\$ 256,567
Working Capital Allowance	\$ -	\$ -	\$ 11,593	\$ 11,593
Total Rate Base	\$ 62,052	\$ (31,984)	\$ 41,661	\$ 37,668

Exhibit 2: Capital Structure

ESAD Enterprise, Inc. d/b/a Beaches Sewer System
 Staff Assisted Rate Case
 As of June 30, 2016
 Dkt 160165-SU ACN 16-222-1-1

Capital Component	Balance Per Utility as of 06/30/2016	Audit Adjustment	Balance Per Audit as of 06/30/2016	Simple average	Ratio	Cost Rate	Weighted Average Cost
Common Equity	\$ (55,737)	\$ 55,737	\$ -	\$ -	0.00%	11.16%	0.00%
Long Term Debt	\$ 217,870	\$ (2,958)	\$ 214,912	\$ 216,391	99.00%	4.84%	4.79%
Short Term Debt	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Accumulated Deferred Income Tax	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Customer Deposits	\$ 2,166	\$ -	\$ 2,166	\$ 2,166	1.00%	2.00%	0.02%
Total	\$ 164,299	\$ 52,779	\$ 217,078	\$ 218,557	100.00%		4.81%

Utility did not provide customer deposits. Audit staff was unable to verify customer deposit due to no supporting documentation.

The cost rate for Common Equity is capped at 11.16 percent per Order No. PSC-15-0259-PAA-WS.

Exhibit 3: Net Operating Income

**ESAD Enterprise, Inc. d/b/a Beaches Sewer System
Staff Assisted Rate Case
Docket No. 160165-SU; ACN 16-222-1-1
Net Operating Income
As of June 30, 2016**

Description	Balance Per Utility as of June 30, 2016	Audit Adjustment	Balance Per Audit as of June 30, 2016
Operating Revenues	\$ 131,164	\$ 92	\$ 131,256
Operating & Maintenance Expenses	\$ 131,861	\$ (39,117)	\$ 92,745
Depreciation Expense	\$ 7,306	\$ (3,404)	\$ 3,902
Amortization Expense	\$ (6,407)	\$ (6,403)	\$ (12,810)
Taxes Other Than Income	\$ 13,284	\$ 4,455	\$ 17,739
Total Operating Expenses:	\$ 146,044	\$ (44,469)	\$ 101,576
Net Operating Income (Loss)	\$ (14,880)	\$ 44,561	\$ 29,680